Investments (Canadian) 9th edition Bodie Test Bank

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Chapter 02
Financial Markets, Asset Classes and Financial Instruments

Multiple Choice Questions

1. Which of the following is **not** a characteristic of a money market instrument?
A. Liquidity
B. Marketability
C. Long maturity
D. Liquidity premium
E. Long maturity and liquidity premium

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

2. The money market is a subsector of the
A. commodity market.
B. capital market.
C. derivatives market.
D. equity market.
E. None of the options are correct.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

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3. Which one of the following is **not** a money market instrument?
A. Treasury bill
B. Negotiable certificate of deposit
C. Commercial paper
D. Treasury bond
E. Eurodollar account

Money market instruments are instruments with maturities of one year or less, which applies to all of the options except Treasury bonds.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

4. T-bills are financial instruments initially sold by _____ to raise funds.
A. commercial banks
B. the Canadian government
C. state and local governments
D. agencies of the federal government
E. the Canadian government and agencies of the federal government

Only the Canadian government sells T-bills in the primary market.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

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5. The bid price of a T-bill in the secondary market is
A. the price at which the dealer in T-bills is willing to sell the bill.
B. the price at which the dealer in T-bills is willing to buy the bill.
C. greater than the asked price of the T-bill.
D. the price at which the investor can buy the T-bill.
E. never quoted in the financial press.

T-bills are sold in the secondary market via dealers; the bid price quoted in the financial press is the price at which the dealer is willing to buy the bill.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

6. The smallest component of the money market is
A. repurchase agreements.
B. small-denomination time deposits.
C. savings deposits.
D. money market mutual funds.
E. commercial paper.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

7. The smallest component of the fixed-income market is _____ debt.
A. Treasury
B. other asset-backed
C. corporate
D. tax-exempt
E. mortgage-backed

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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8. The largest component of the fixed-income market is _____ debt.
A. Treasury
B. asset-backed
C. corporate
D. tax-exempt
E. mortgage-backed

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

9. Which of the following is not a component of the money market?
A. Repurchase agreements
B. Eurodollars
C. Real estate investment trusts
D. Money market mutual funds
E. Commercial paper

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

10. Commercial paper is a short-term security issued by _____ to raise funds.
A. the Federal Reserve Bank
B. commercial banks
C. large, well-known companies
D. the New York Stock Exchange
E. state and local governments

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

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11. Which one of the following terms **best** describes Eurodollars?
A. Dollar-denominated deposits only in European banks.
B. Dollar-denominated deposits at branches of foreign banks in the U.S.
C. Dollar-denominated deposits at foreign banks and branches of American banks outside the U.S.
D. Dollar-denominated deposits at American banks in the U.S.
E. Dollars that have been exchanged for European currency.

Although originally Eurodollars were used to describe dollar-denominated deposits in European banks, today the term has been extended to apply to any dollar-denominated deposit outside the U.S.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

12. Deposits of commercial banks at the Federal Reserve Bank are called
A. bankers' acceptances.
B. repurchase agreements.
C. time deposits.
D. federal funds.
E. reserve requirements.

The federal funds are required for the bank to meet reserve requirements, which is a way of influencing the money supply. No substitutes for fed funds are permitted.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

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13. The interest rate charged by banks with excess reserves at a Federal Reserve Bank to banks needing overnight loans to meet reserve requirements is called the
A. prime rate.
B. discount rate.
C. federal funds rate.
D. call money rate.
E. money market rate.

The federal funds are required for the bank to meet reserve requirements, which is a way of influencing the money supply.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

14. Which of the following statement(s) is (are) true regarding municipal bonds?

I) A municipal bond is a debt obligation issued by state or local governments.
II) A municipal bond is a debt obligation issued by the federal government.
III) The interest income from a municipal bond is exempt from federal income taxation.
IV) The interest income from a municipal bond is exempt from state and local taxation in the issuing state.
A. I and II only
B. I and III only
C. I, II, and III only
D. I, III, and IV only
E. I and IV only

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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15. Which of the following statements is **true** regarding a corporate bond?
A. A corporate callable bond gives the holder the right to exchange it for a specified number of the company's common shares.
B. A corporate debenture is a secured bond.
C. A corporate indenture is a secured bond.
D. A corporate convertible bond gives the holder the right to exchange the bond for a specified number of the company's common shares.
E. Holders of corporate bonds have voting rights in the company.

"A corporate convertible bond gives the holder the right to exchange the bond for a specified number of the company's common shares" is the only true statement; all other statements describe something other than the term specified.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

16. In the event of the firm's bankruptcy,
A. the most shareholders can lose is their original investment in the firm's stock.
B. common shareholders are the first in line to receive their claims on the firm's assets.
C. bondholders have claim to what is left from the liquidation of the firm's assets after paying the shareholders.
D. the claims of preferred shareholders are honored before those of the common shareholders.
E. the most shareholders can lose is their original investment in the firm's stock and the claims of preferred shareholders are honored before those of the common shareholders.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Equity Securities.
Topic: 02-03 Certificates of Deposit

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17. Which of the following is **true** regarding a firm's securities?
A. Common dividends are paid before preferred dividends.
B. Preferred stockholders have voting rights.
C. Preferred dividends are usually cumulative.
D. Preferred dividends are contractual obligations.
E. Common dividends can usually be paid if preferred dividends have been skipped.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Equity Securities.
Topic: 02-03 Certificates of Deposit

18. Which of the following is **true** of the Dow Jones Industrial Average?
A. It is a value-weighted average of 30 large industrial stocks.
B. It is a price-weighted average of 30 large industrial stocks.
C. The divisor must be adjusted for stock splits.
D. It is a value-weighted average of 30 large industrial stocks, and the divisor must be adjusted for stock splits.
E. It is a price-weighted average of 30 large industrial stocks, and the divisor must be adjusted for stock splits.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

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19. Which of the following indices is(are) market-value weighted?

I) The New York Stock Exchange Composite Index
II) The S&P/TSX Composite Index
III) The Dow Jones Industrial Average
A. I only
B. I and II only
C. I and III only
D. I, II, and III
E. II and III only

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

20. The Dow Jones Industrial Average (DJIA) is computed by
A. adding the prices of 30 large "blue-chip" stocks and dividing by 30.
B. calculating the total market value of the 30 firms in the index and dividing by 30.
C. adding the prices of the 30 stocks in the index and dividing by a divisor.
D. adding the prices of the 500 stocks in the index and dividing by a divisor.
E. adding the prices of the 30 stocks in the index and dividing by the value of these stocks as of some base date period.

When the DJIA became a 30-stock index, it was computed by adding the prices of 30 large "blue-chip" stocks and dividing by 30; however, as stocks on the index have split and been replaced, the divisor has been adjusted.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

21. Consider the following three stocks:

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Stock	Price	Number of Shares Outstanding
Stock A	$40	200
Stock B	$70	500
Stock C	$10	600

The price-weighted index constructed with the three stocks is
A. 30.
B. 40.
C. 50.
D. 60.
E. 70.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

22. Consider the following three stocks:

Stock	Price	Number of Shares Outstanding
Stock A	$40	200
Stock B	$70	500
Stock C	$10	600

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The value-weighted index constructed with the three stocks using a divisor of 100 is
A. 1.2.
B. 1200.
C. 490.
D. 4900.
E. 49.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

23. Consider the following three stocks:

Stock	Price	Number of Shares Outstanding
Stock A	$40	200
Stock B	$70	500
Stock C	$10	600

Assume at these prices that the value-weighted index constructed with the three stocks is 490. What would the index be if stock B is split 2 for 1 and stock C 4 for 1?
A. 265
B. 430
C. 355
D. 490
E. 1000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

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24. The price quotations of Treasury bonds in the *Wall Street Journal* show an ask price of 104.25 and a bid price of 104.125. As a buyer of the bond, what is the dollar price you expect to pay?
A. $1,048.00
B. $1,042.50
C. $1,044.00
D. $1,041.25
E. $1,040.40

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

25. The price quotations of Treasury bonds in the *Wall Street Journal* show an ask price of 104.25 and a bid price of 104.125. As a seller of the bond, what is the dollar price you expect to receive?
A. $1,048.00
B. $1,042.50
C. $1,041.25
D. $1,041.75
E. $1,040.40

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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26. An investor purchases one municipal and one corporate bond that pay rates of return of 8% and 10%, respectively. If the investor is in the 20% marginal tax bracket, his or her after-tax rates of return on the municipal and corporate bonds would be _____ and _____, respectively.
A. 8%; 10%
B. 8%; 8%
C. 6.4%; 8%
D. 6.4%; 10%
E. 10%; 10%

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

27. An investor purchases one municipal and one corporate bond that pay rates of return of 7.5% and 10.3%, respectively. If the investor is in the 25% marginal tax bracket, his or her after-tax rates of return on the municipal and corporate bonds would be _____ and _____, respectively.
A. 7.5%; 10.3%
B. 7.5%; 7.73%
C. 5.63%; 7.73%
D. 5.63%; 10.3%
E. 10%; 10%

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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28. If a Treasury note has a bid price of $975, the quoted bid price in the *Wall Street Journal* would be
A. 97:50.
B. 97:16.
C. 97:80.
D. 94:24.
E. 97:75.

Treasuries are quoted as a percent of $1,000 and in 1/32s.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

29. If a Treasury note has a bid price of $995, the quoted bid price in the *Wall Street Journal* would be
A. 99:50.
B. 99:16.
C. 99:80.
D. 99:24.
E. 99:32.

Treasuries are quoted as a percent of $1,000 and in 1/32s.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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30. In calculating the Standard and Poor's stock price indices, the adjustment for stock split occurs
A. by adjusting the divisor.
B. automatically.
C. by adjusting the numerator.
D. quarterly on the last trading day of each quarter.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

31. Which of the following statements regarding the Dow Jones Industrial Average (DJIA) is **false**?
A. The DJIA is a measure of the performance of the stock market.
B. The DJIA consists of 30 blue chip stocks.
C. The DJIA is affected equally by changes in low- and high-priced stocks.
D. The DJIA divisor needs to be adjusted for stock splits.
E. The value of the DJIA is much higher than individual stock prices.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

32. The index that includes the largest number of actively-traded stocks is
A. the NASDAQ Composite Index.
B. the NYSE Composite Index.
C. the Wilshire 5000 Index.
D. the Value Line Composite Index.
E. the Russell Index.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

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33. A 5.5%, 20-year municipal bond is currently priced to yield 7.2%. For a taxpayer in the 33% marginal tax bracket, this bond would offer an equivalent taxable yield of
A. 8.20%.
B. 10.75%.
C. 11.40%.
D. 4.82%.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

34. If the market prices of each of the 30 stocks in the Dow Jones Industrial Average (DJIA) all change by the same percentage amount during a given day, which stock will have the greatest impact on the DJIA?
A. The stock trading at the highest dollar price per share
B. The stock having the greatest amount of debt in its capital structure
C. The stock having the greatest amount of equity in its capital structure
D. The stock having the lowest volatility

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

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35. The stocks on the Dow Jones Industrial Average
A. have remained unchanged since the creation of the index.
B. include most of the stocks traded on the NYSE.
C. are changed occasionally as circumstances dictate.
D. consist of stocks on which the investor cannot lose money.
E. include most of the stocks traded on the NYSE and are changed occasionally as circumstances dictate.

The stocks on the DJIA are only a small sample of the entire market and have been changed occasionally since the creation of the index; one can lose money on any stock.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

36. Federally-sponsored agency debt
A. is legally insured by the U.S. Treasury.
B. would probably be backed by the U.S. Treasury in the event of a near-default.
C. has a small positive yield spread relative to U.S. Treasuries.
D. would probably be backed by the U.S. Treasury in the event of a near-default and has a small positive yield spread relative to U.S. Treasuries.
E. is legally insured by the U.S. Treasury and has a small positive yield spread relative to U.S. Treasuries.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

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37. Brokers' calls
A. are funds used by individuals who wish to buy stocks on margin.
B. are funds borrowed by the broker from the bank, with the agreement to repay the bank immediately if requested to do so.
C. carry a rate that is usually about one percentage point lower than the rate on Canadian T-bills.
D. are funds used by individuals who wish to buy stocks on margin and are funds borrowed by the broker from the bank, with the agreement to repay the bank immediately if requested to do so.
E. are funds used by individuals who wish to buy stocks on margin and carry a rate that is usually about one percentage point lower than the rate on Canadian T-bills.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

38. A form of short-term borrowing by dealers in government securities is (are)
A. reserve requirements.
B. repurchase agreements.
C. bankers' acceptances.
D. commercial paper.
E. brokers' calls.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

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39. Which of the following securities is a money market instrument?
A. Treasury note
B. Treasury bond
C. Municipal bond
D. Commercial paper
E. Mortgage security

Only commercial paper is a money market security. The others are capital market instruments.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

40. The yield to maturity reported in the financial pages for Treasury securities
A. is calculated by compounding the semiannual yield.
B. is calculated by doubling the semiannual yield.
C. is also called the bond equivalent yield.
D. is calculated as the yield-to-call for premium bonds.
E. is calculated by doubling the semiannual yield and is also called the bond equivalent yield.

The yield to maturity shown in the financial pages is an APR calculated by doubling the semiannual yield.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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41. Which of the following is **not** a mortgage-related government or government-sponsored agency?
A. The Federal Home Loan Bank
B. The Federal National Mortgage Association
C. The U.S. Treasury
D. Freddie Mac
E. Ginnie Mae

Only the U.S. Treasury issues securities that are not mortgage-backed.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

42. In order for you to be indifferent between the after-tax returns on a corporate bond paying 8.5% and a tax-exempt municipal bond paying 6.12%, what would your tax bracket need to be?
A. 33%
B. 72%
C. 15%
D. 28%
E. Cannot be determined from the information given.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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43. What does the term *negotiable* mean, with regard to negotiable certificates of deposit?
A. The CD can be sold to another investor if the owner needs to cash it in before its maturity date.
B. The rate of interest on the CD is subject to negotiation.
C. The CD is automatically reinvested at its maturity date.
D. The CD has staggered maturity dates built in.
E. The interest rate paid on the CD will vary with a designated market rate.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

44. Freddie Mac and Ginnie Mae were organized to provide
A. a primary market for mortgage transactions.
B. liquidity for the mortgage market.
C. a primary market for farm loan transactions.
D. liquidity for the farm loan market.
E. a source of funds for government agencies.

Liquidity for the mortgage market.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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45. The type of municipal bond that is used to finance commercial enterprises, such as the construction of a new building for a corporation, is called
A. a corporate courtesy bond.
B. a revenue bond.
C. a general-obligation bond.
D. a tax-anticipation note.
E. an industrial-development bond.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

46. Suppose an investor is considering a corporate bond with a 7.17% before-tax yield and a municipal bond with a 5.93% before-tax yield. At what marginal tax rate would the investor be indifferent between investing in the corporate and investing in the muni?
A. 15.4%
B. 23.7%
C. 39.5%
D. 17.3%
E. 12.4%

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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47. Which of the following are characteristics of preferred stock?

I) It pays its holder a fixed amount of income each year at the discretion of its managers.
II) It gives its holder voting power in the firm.
III) Its dividends are usually cumulative.
IV) Failure to pay dividends may result in bankruptcy proceedings.
A. I, III, and IV
B. I, II, and III
C. I and III
D. I, II, and IV
E. I, II, III, and IV

Only I and III are true.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Equity Securities.
Topic: 02-03 Certificates of Deposit

48. Bond market indexes can be difficult to construct because
A. they cannot be based on firms' market values.
B. bonds tend to trade infrequently, making price information difficult to obtain.
C. there are so many different kinds of bonds.
D. prices cannot be obtained for companies that operate in emerging markets.
E. corporations are not required to disclose the details of their bond issues.

Bond trading is often "thin," making prices stale (or not current).

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

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49. With regard to a futures contract, the long position is held by
A. the trader who bought the contract at the largest discount.
B. the trader who has to travel the farthest distance to deliver the commodity.
C. the trader who plans to hold the contract open for the lengthiest time period.
D. the trader who commits to purchasing the commodity on the delivery date.
E. the trader who commits to delivering the commodity on the delivery date.

The trader agreeing to buy the underlying asset is said to be long the contract, whereas the trader agreeing to deliver the underlying asset is said to be short the contract.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Derivative Market.
Topic: 02-05 Bankers' Acceptances

50. In order for you to be indifferent between the after-tax returns on a corporate bond paying 9% and a tax-exempt municipal bond paying 7%, what would your tax bracket need to be?
A. 17.6%
B. 27%
C. 22.2%
D. 19.8%
E. Cannot be determined from the information given.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

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51. In order for you to be indifferent between the after-tax returns on a corporate bond paying 7% and a tax-exempt municipal bond paying 5.5%, what would your tax bracket need to be?
A. 22.6%
B. 21.4%
C. 26.2%
D. 19.8%
E. Cannot be determined from the information given.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

52. An investor purchases one municipal and one corporate bond that pay rates of return of 6% and 8%, respectively. If the investor is in the 25% marginal tax bracket, his or her after-tax rates of return on the municipal and corporate bonds would be _____ and _____, respectively.
A. 6%; 8%
B. 4.5%; 6%
C. 4.5%; 8%
D. 6%; 6%

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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53. An investor purchases one municipal and one corporate bond that pay rates of return of 7.2% and 9.1%, respectively. If the investor is in the 15% marginal tax bracket, his or her after-tax rates of return on the municipal and corporate bonds would be _____ and _____, respectively.
A. 7.2%; 9.1%
B. 7.2%; 7.735%
C. 6.12%; 7.735%
D. 8.471%; 9.1%

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

54. For a taxpayer in the 25% marginal tax bracket, a 20-year municipal bond currently yielding 5.5% would offer an equivalent taxable yield of
A. 7.33%.
B. 10.75%.
C. 5.5%.
D. 4.125%.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

55. For a taxpayer in the 15% marginal tax bracket, a 15-year municipal bond currently yielding 6.2% would offer an equivalent taxable yield of
A. 6.2%.
B. 5.27%.
C. 8.32%.
D. 7.29%.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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56. With regard to a futures contract, the short position is held by
A. the trader who bought the contract at the largest discount.
B. the trader who has to travel the farthest distance to deliver the commodity.
C. the trader who plans to hold the contract open for the lengthiest time period.
D. the trader who commits to purchasing the commodity on the delivery date.
E. the trader who commits to delivering the commodity on the delivery date.

The trader agreeing to buy the underlying asset is said to be long the contract, whereas the trader agreeing to deliver the underlying asset is said to be short the contract.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

57. A call option allows the buyer to
A. sell the underlying asset at the exercise price on or before the expiration date.
B. buy the underlying asset at the exercise price on or before the expiration date.
C. sell the option in the open market prior to expiration.
D. sell the underlying asset at the exercise price on or before the expiration date and sell the option in the open market prior to expiration.
E. buy the underlying asset at the exercise price on or before the expiration date and sell the option in the open market prior to expiration.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

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58. A put option allows the holder to
A. buy the underlying asset at the strike price on or before the expiration date.
B. sell the underlying asset at the strike price on or before the expiration date.
C. sell the option in the open market prior to expiration.
D. sell the underlying asset at the strike price on or before the expiration date and sell the option in the open market prior to expiration.
E. buy the underlying asset at the strike price on or before the expiration date and sell the option in the open market prior to expiration.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Derivative Market.
Topic: 02-05 Bankers' Acceptances

59. The ____ index represents the performance of the German stock market.
A. DAX
B. FTSE
C. Nikkei
D. Hang Seng

Many major foreign stock markets exist, including the DAX (Germany), FTSE (UK), Nikkei (Japan), Hang Seng (Hong Kong), and TSX (Canada).

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Derivative Market.
Topic: 02-05 Bankers' Acceptances

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60. The ____ index represents the performance of the Japanese stock market.
A. DAX
B. FTSE
C. Nikkei
D. Hang Seng

Many major foreign stock markets exist, including the DAX (Germany), FTSE (UK), Nikkei (Japan), Hang Seng (Hong Kong), and TSX (Canada).

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Derivative Market.
Topic: 02-05 Bankers' Acceptances

61. The ____ index represents the performance of the U.K. stock market.
A. DAX
B. FTSE
C. Nikkei
D. Hang Seng

Many major foreign stock markets exist, including the DAX (Germany), FTSE (UK), Nikkei (Japan), Hang Seng (Hong Kong), and TSX (Canada).

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

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62. The ____ index represents the performance of the Hong Kong stock market.
A. DAX
B. FTSE
C. Nikkei
D. Hang Seng

Many major foreign stock markets exist, including the DAX (Germany), FTSE (UK), Nikkei (Japan), Hang Seng (Hong Kong), and TSX (Canada).

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

63. The ____ index represents the performance of the Canadian stock market.
A. DAX
B. FTSE
C. S&P/TSX
D. Hang Seng
E. DOW

Many major foreign stock markets exist, including the DAX (Germany), FTSE (UK), Nikkei (Japan), Hang Seng (Hong Kong), and TSX (Canada).

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

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64. The ultimate stock index in the U.S. is the
A. Wilshire 5000.
B. DJIA.
C. S&P 500.
D. Russell 2000.

The Wilshire 5000 is the broadest U.S. index and contains more than 7000 stocks.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

65. The ____ is an example of a U.S. index of large firms.
A. Wilshire 5000
B. DJIA
C. DAX
D. Russell 2000
E. All of the options.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

66. The ____ is an example of a U.S. index of small firms.
A. S&P 500
B. DJIA
C. DAX
D. Russell 2000
E. All of the options are correct.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

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67. The largest component of the money market is/are
A. repurchase agreements.
B. money market mutual funds.
C. T-bills.
D. Eurodollars.
E. savings deposits.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

68. Certificates of deposit are insured by the
A. SPIC.
B. CFTC.
C. Lloyds of London.
D. FDIC.
E. All of the options are correct.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

69. Certificates of deposit are insured for up to _____ in the event of bank insolvency.
A. $10,000
B. $100,000
C. $250,000
D. $500,000

The Federal Deposit Insurance Corporation (FDIC) insures saving deposits for up to $100,000.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

Investments (Canadian) 9th edition Bodie Test Bank

70. Canada's best-known stock market indicator is
A. Wilshire 5000.
B. DJIA.
C. S&P/TSX Composite Index.
D. Russell 2000.
E. S&P 500

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Stock and Bond Market Indexes.
Topic: 02-04 Commercial Paper

71. Which of the following is used extensively in foreign trade when the creditworthiness of one trader is unknown to the trading partner?
A. Repos
B. Bankers' acceptances
C. Eurodollars
D. Federal funds

A bankers' acceptance facilitates foreign trade by substituting a bank's credit for that of the trading partner.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

72. A U.S. dollar-denominated bond that is sold in Singapore is a(n)
A. Eurobond.
B. Yankee bond.
C. Samurai bond.
D. Bulldog bond.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

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73. A municipal bond issued to finance an airport, hospital, turnpike, or port authority is typically a
A. revenue bond.
B. general-obligation bond.
C. industrial-development bond.
D. revenue bond or general-obligation bond.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

74. Unsecured bonds are called
A. junk bonds.
B. debentures.
C. indentures.
D. subordinated debentures.
E. either debentures or subordinated debentures.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 The Money Market.
Topic: 02-01 The Money Market

75. A bond that can be retired prior to maturity by the issuer is a(n) _____ bond.
A. convertible
B. secured
C. unsecured
D. callable
E. Yankee

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

Investments (Canadian) 9th edition Bodie Test Bank

76. Corporations can exclude _____% of the dividends received from preferred stock from taxes.
A. 50
B. 70
C. 20
D. 15
E. 62

Corporations can exclude 70% of dividends received from preferred stock from taxes.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

77. You purchased a futures contract on corn at a futures price of 3.50, and at the time of expiration, the price was 3.52. What was your profit or loss?
A. $2.00
B. -$2.00
C. $100
D. -$100

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-02 The Bond Market.
Topic: 02-02 Treasury Bills

78. You purchased a futures contract on corn at a futures price of 3.31, and at the time of expiration, the price was 3.43. What was your profit or loss?
A. -$12.00
B. $12.00
C. -$600
D. $600

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-03 Equity Securities.
Topic: 02-03 Certificates of Deposit

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79. You sold a futures contract on corn at a futures price of 3.50, and at the time of expiration, the price was 3.52. What was your profit or loss?
A. $2.00
B. -$2.00
C. $100
D. -$100

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-05 Derivative Market.
Topic: 02-05 Bankers' Acceptances

80. You sold a futures contract on corn at a futures price of 3.31, and at the time of expiration, the price was 3.43. What was your profit or loss?
A. -$12.00
B. $12.00
C. -$600
D. $600

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-05 Derivative Market.
Topic: 02-05 Bankers' Acceptances

81. You purchased a futures contract on oats at a futures price of 2.33, and at the time of expiration, the price was 2.61. What was your profit or loss?
A. $1400.00
B. -$1375.00
C. -$27.50
D. $27.50

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-05 Derivative Market.
Topic: 02-05 Bankers' Acceptances

Investments (Canadian) 9th edition Bodie Test Bank

82. You sold a futures contract on oats at a futures price of 2.33, and at the time of expiration, the price was 2.61. What was your profit or loss?
A. $1375.00
B. -$1400.00
C. -$27.50
D. $27.50

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-05 Derivative Market.
Topic: 02-05 Bankers' Acceptances

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