Fundamentals of Investments Valuation and Management 9th edition Jordan Test Bank

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Fundamentals of Investments 9th Edition by Jordan Ch01

Answers are located in the second half of this document.

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

1) The total dollar return on a share of stock is defined as the:

A) change in the price of the stock over a period.
B) dividend income divided by the beginning price per share.
C) capital gain or loss plus any dividend income.
D) change in the stock price divided by the original stock price.
E) annual dividend income received.

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic

2) The dividend yield is defined as the annual dividend expressed as a percentage of the:

A) average stock price.
B) initial stock price.
C) ending stock price.
D) total annual return.
E) capital gain.

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic

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3) The capital gains yield is equal to:

A) $(P_t - P_{t+1} + D_{t+1})/ P_{t+1}$.
B) $(P_{t+1} - P_t + D_t)/P_t$.
C) D_{t+1}/P_t.
D) $(P_{t+1} - P_t)/P_t$.
E) $(P_{t+1} - P_t)/P_{t+1}$.

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic

4) When the total return on an investment is expressed on a per-year basis it is called the:

A) capital gains yield.
B) dividend yield.
C) holding period return.
D) effective annual return.
E) initial return.

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Topic : Annual, holding period, and effective rates

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5) The risk-free rate is:

A) another term for the dividend yield.
B) defined as the increase in the value of a share of stock over time.
C) the rate of return earned on an investment in a firm that you personally own.
D) defined as the total of the capital gains yield plus the dividend yield.
E) the rate of return on a riskless investment.

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Topic : Risk and return relationship

6) The rate of return earned on a U.S. Treasury bill is frequently used as a proxy for the:

A) risk premium.
B) deflated rate of return.
C) risk-free rate.
D) expected rate of return.
E) market rate of return.

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Topic : Risk and return relationship

7) The risk premium is defined as the rate of return on:

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A) a risky asset minus the risk-free rate.
B) the overall market.
C) a U.S. Treasury bill.
D) a risky asset minus the inflation rate.
E) a riskless investment.

Question Details
Difficulty : 1 Easy
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Topic : Risk premiums
Learning Objective : 01-03 The historical risks on various important types of investments.

8) The additional return earned for accepting risk is called the:

A) inflated return.
B) capital gains yield.
C) real return.
D) riskless rate.
E) risk premium.

Question Details
Difficulty : 1 Easy
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Topic : Risk premiums
Learning Objective : 01-03 The historical risks on various important types of investments.

9) The standard deviation is a measure of:

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A) volatility.
B) total return.
C) capital gains.
D) changes in dividend yields.
E) changes in the capital gains rate.

Question Details
Difficulty : 1 Easy
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance

10) A frequency distribution, which is completely defined by its average (mean) and variance or standard deviation, is referred to as a(n):

A) normal distribution.
B) variance distribution.
C) expected rate of return.
D) average geometric return.
E) average arithmetic return.

Question Details
Difficulty : 1 Easy
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Normal probability distribution

11) The arithmetic average return is the:

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A) summation of the returns for a number of years, t, divided by (t − 1).
B) compound total return for a period of years, t, divided by t.
C) average compound return earned per year over a multi-year period.
D) average squared return earned in a single year.
E) return earned in an average year over a multi-year period.

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns

12) The average compound return earned per year over a multi-year period is called the:

A) total return.
B) average capital gains yield.
C) variance.
D) arithmetic average return.
E) geometric average return.

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns

13) The average compound return earned per year over a multi-year period when investment inflows and outflows are considered is called the:

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A) total return.
B) average capital gains yield.
C) dollar-weighted average return.
D) arithmetic average return.
E) geometric average return.

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Bloom's : Remember
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns

14) Which one of the following statements is correct concerning the dividend yield and the total return?

A) The dividend yield can be zero while the total return must be a positive value.
B) The total return can be negative but the dividend yield cannot be negative.
C) The total return must be greater than the dividend yield.
D) The total return plus the capital gains yield is equal to the dividend yield.
E) The dividend yield exceeds the total return when a stock increases in value.

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
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Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Understand

15) An annualized return:

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A) is less than a holding period return when the holding period is less than one year.

B) is expressed as the summation of the capital gains yield and the dividend yield on an investment.

C) is expressed as the capital gains yield that would have been realized if an investment had been held for a twelve-month period.

D) is computed as (1 + holding period percentage return)^m, where "m" is the number of holding periods in a year.

E) is computed as (1 + holding period percentage return)^m, where "m" is the number of months in the holding period.

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Topic : Annual, holding period, and effective rates
Bloom's : Understand

16) Stacey purchased 300 shares of Coulter Industries stock and held it for 3 months before reselling it. What is the value of "m" when computing the annualized return on this investment?

A) .25
B) .33
C) .40
D) 3.00
E) 4.00

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Topic : Annual, holding period, and effective rates
Bloom's : Understand

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17) Capital gains are included in the return on an investment:

A) when either the investment is sold or the investment has been owned for at least one year.
B) only if the investment is sold and the capital gain is realized.
C) whenever dividends are paid.
D) whether or not the investment is sold.
E) only if the investment incurs a loss in value or is sold.

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Understand

18) When we refer to the rate of return on an investment, we are generally referring to the:

A) capital gains yield.
B) effective annual rate of return.
C) total percentage return.
D) dividend yield.
E) annualized dividend yield.

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Understand

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19) Which one of the following should be used to compare the overall performance of three different investments?

A) holding period dollar return
B) capital gains yield
C) dividend yield
D) holding period percentage return
E) effective annual return

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Topic : Annual, holding period, and effective rates
Bloom's : Understand

20) If you multiply the number of shares outstanding for a stock by the price per share, you are computing the firm's:

A) equity ratio.
B) total book value.
C) market share.
D) market capitalization.
E) time value.

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Understand
Section : 1.2 The Historical Record
Topic : Market, book, and other firm values

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21) Which one of the following is considered the best method of comparing the returns on various-sized investments?

A) total dollar return
B) real dollar return
C) absolute dollar return
D) percentage return
E) variance return

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Understand

22) Which one of the following had the highest average return for the period 1926-2018?

A) large-company stocks
B) U.S. Treasury bills
C) long-term government bonds
D) small-company stocks
E) long-term corporate bonds

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Understand
Section : 1.2 The Historical Record
Topic : Historical market performance
Learning Objective : 01-02 The historical returns on various important types of investments.

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23) Which one of the following statements is correct based on the historical returns for the period 1926-2018?

A) Treasury bills yielded a higher rate of return than long-term government bonds.
B) The inflation rate exceeded the rate of return on Treasury bills during some years.
C) Small-company stocks outperformed large-company stocks every year during the period.
D) Bond prices, in general, were more volatile than stock prices.
E) Large-company stocks outperformed small-company stocks.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Understand
Section : 1.2 The Historical Record
Topic : Historical market performance
Learning Objective : 01-02 The historical returns on various important types of investments.

24) For the period 1926-2018, the annual return on large-company stocks:

A) was negative following every three-year period of positive returns.
B) was only negative for two or more consecutive years during the Great Depression.
C) remained negative for at least two consecutive years anytime that it was negative.
D) never exceeded a positive 30 percent nor lost more than 20 percent.
E) was unpredictable based on the prior year's performance.

Question Details
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Understand
Section : 1.2 The Historical Record
Topic : Historical market performance
Learning Objective : 01-02 The historical returns on various important types of investments.
Difficulty : 2 Medium

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25) Which one of the following had the highest risk premium for the period 1926-2018?

A) U.S. Treasury bills
B) long-term government bonds
C) large-company stocks
D) small-company stocks
E) intermediate-term government bonds

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Learning Objective : 01-03 The historical risks on various important types of investments.
Bloom's : Understand
Topic : Historical market performance

26) Based on the period 1926-2018, the risk premium for U.S. Treasury bills was:

A) 0%
B) 1.2%
C) 2.0%
D) 2.4%
E) 2.7%

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Learning Objective : 01-03 The historical risks on various important types of investments.
Bloom's : Understand
Topic : Historical market performance

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27) Based on the period of 1926-2018, the risk premium for small-company stocks averaged:

A) 12.3%
B) 12.8%
C) 15.0%
D) 16.8%
E) 17.4%

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Learning Objective : 01-03 The historical risks on various important types of investments.
Bloom's : Understand
Topic : Historical market performance

28) The average risk premium on large-company stocks for the period 1926-2018 was:

A) 6.7%
B) 8.3%
C) 8.5%
D) 12.3%
E) 13.6%

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Learning Objective : 01-03 The historical risks on various important types of investments.
Bloom's : Understand
Topic : Historical market performance

29) The average risk premium on long-term corporate bonds for the period 1926-2018 was:

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A) 2.4%
B) 2.9%
C) 3.3%
D) 3.7%
E) 3.9%

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Learning Objective : 01-03 The historical risks on various important types of investments.
Bloom's : Understand
Topic : Historical market performance

30) Which one of the following had the narrowest bell curve for the period 1926-2018?

A) large-company stocks
B) long-term corporate bonds
C) long-term government bonds
D) small-company stocks
E) U.S. Treasury bills

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Bloom's : Understand
Topic : Historical market performance

31) Which one of the following had the greatest volatility of returns for the period 1926-2018?

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A) large-company stocks
B) U.S. Treasury bills
C) long-term government bonds
D) small-company stocks
E) long-term corporate bonds

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Bloom's : Understand
Topic : Historical market performance

32) Which one of the following had the smallest standard deviation of returns for the period 1926-2018?

A) large-company stocks
B) small-company stocks
C) long-term government bonds
D) intermediate term government bonds
E) intermediate term corporate bonds

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Bloom's : Understand
Topic : Historical market performance

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33) For the period 1926-2018, long-term government bonds had an average return that _____ the average return on long-term corporate bonds while having a standard deviation that _____ the standard deviation of the long-term corporate bonds.

A) exceeded; was less than
B) exceeded; equaled
C) exceeded; exceeded
D) was less than; exceeded
E) was less than; was less than

Question Details
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.4 Return Variability: The Second Lesson
Bloom's : Understand
Topic : Historical market performance
Difficulty : 2 Medium
Learning Objective : 01-04 The relationship between risk and return.

34) The mean plus or minus one standard deviation defines the _____ percent probability range of a normal distribution.

A) 50
B) 68
C) 82
D) 90
E) 95

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Normal probability distribution
Bloom's : Understand

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35) Assume you own a portfolio that is invested 50 percent in large-company stocks and 50 percent in corporate bonds. If you want to increase the potential annual return on this portfolio, you could:

A) decrease the investment in stocks and increase the investment in bonds.
B) replace the corporate bonds with intermediate-term government bonds.
C) replace the corporate bonds with Treasury bills.
D) increase the standard deviation of the portfolio.
E) reduce the expected volatility of the portfolio.

Question Details
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 01-04 The relationship between risk and return.

36) Which one of the following statements is correct?

A) The standard deviation of the returns on Treasury bills is zero.
B) Large-company stocks are historically riskier than small-company stocks.
C) The standard deviation is a means of measuring the volatility of returns on an investment.
D) A risky asset will always have a higher annual rate of return than a riskless asset.
E) There is an indirect relationship between risk and return.

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Question Details
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance
Bloom's : Understand
Difficulty : 2 Medium
Learning Objective : 01-04 The relationship between risk and return.

37) The wider the distribution of an investment's returns over time, the _____ the expected average rate of return and the _____ the expected volatility of those returns.

A) higher; higher
B) higher; lower
C) lower; higher
D) lower; lower
E) The distribution of returns does not affect the expected average rate of return.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.4 Return Variability: The Second Lesson
Topic : Normal probability distribution
Bloom's : Understand
Learning Objective : 01-04 The relationship between risk and return.

38) Which one of the following should be used as the mean return when you are defining the normal distribution of an investment's annual rates of return?

A) arithmetic average return for the period
B) geometric average return for the period
C) total return for the period divided by N − 1
D) arithmetic average return for the period divided by N − 1
E) geometric average return for the period divided by N − 1

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Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Normal probability distribution
Bloom's : Understand

39) The geometric mean return on large-company stocks for the 1926-2018 period:

A) is approximately equal to the arithmetic mean return plus one-half of the standard deviation.
B) exceeds the arithmetic mean return.
C) is approximately equal to the arithmetic mean return minus one-half of the standard deviation.
D) is approximately equal to the arithmetic mean return plus one-half of the variance.
E) is less than the arithmetic mean return.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Understand
Learning Objective : 01-02 The historical returns on various important types of investments.

40) You have owned a stock for seven years. The geometric average return on this investment for those seven years is positive even though the annual rates of return have varied significantly. Given this, you know the arithmetic average return for the period is:

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A) positive but less than the geometric average return.
B) less than the geometric return and could be negative, zero, or positive.
C) equal to the geometric average return.
D) either equal to or greater than the geometric average return.
E) greater than the geometric average return.

Question Details
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Understand
Difficulty : 2 Medium

41) The geometric return on an investment is approximately equal to the arithmetic return:

A) plus half the standard deviation.
B) plus half the variance.
C) minus half the standard deviation.
D) minus half the variance.
E) divided by two.

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Understand

42) Blume's formula is used to:

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A) predict future rates of return.
B) convert an arithmetic average return into a geometric average return.
C) convert a geometric average return into an arithmetic average return.
D) measure past performance in a consistent manner.
E) compute the historical mean return over a multi-year period.

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Understand

43) One year ago, you purchased 200 shares of Southern Foods common stock for $39.50 a share. Today, you sold your shares for $35.40 a share. During this past year, the stock paid $1.36 in dividends per share. What is your dividend yield on this investment?

A) 3.165%
B) 3.375%
C) 3.443%
D) 3.533%
E) 3.610%

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
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Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

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44) You purchased a stock for $30.43 a share, received a dividend of $.70 per share, and sold the stock after one year for $30.22 a share. What was your dividend yield on this investment?

A) 2.30%
B) 2.38%
C) 2.45%
D) 2.67%
E) 2.75%

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

45) One year ago, you purchased 500 shares of stock at a cost of $10,500. The stock paid an annual dividend of $1.10 per share. Today, you sold those shares for $23.90 each. What is the capital gains yield on this investment?

A) 9.96%
B) 10.52%
C) 12.49%
D) 13.81%
E) 14.75%

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

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46) Today, you sold 800 shares of DeSoto, Inc., for $55.50 a share. You bought the shares one year ago at a price of $60.02 a share. Over the year, you received a total of $500 in dividends. What is your capital gains yield on this investment?

A) −7.53%
B) −8.14%
C) −4.86%
D) 8.14%
E) 7.53%

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

47) One year ago, you purchased 400 shares of Southern Cotton at $36.20 a share. During the past year, you received a total of $250 in dividends. Today, you sold your shares for $38.50 a share. What is your total return on this investment?

A) 7.60%
B) 8.08%
C) 9.69%
D) 11.64%
E) 12.68%

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Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

48) You purchased a stock for $50.00 a share and resold it one year later. Your total return for the year was 11.5 percent and the dividend yield was 2.8 percent. At what price did you resell the stock?

A) $42.78
B) $50.62
C) $51.93
D) $52.08
E) $54.35

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

49) A stock sold for $25 at the beginning of the year. The end of year stock price was $25.50. What is the amount of the annual dividend if the total return for the year was 8.5 percent?

A) $1.23
B) $1.50
C) $1.63
D) $1.81
E) $2.12

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Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

50) Todd purchased 600 shares of stock at a price of $68.20 a share and received a dividend of $1.42 per share. After six months, he resold the stock for $71.30 a share. What was his total dollar return?

A) $1,008
B) $1,860
C) $2,712
D) $3,211
E) $3,400

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply
Topic : Dollar and percentage returns

51) Christine owns a stock that dropped in price from $43.57 per share to $39.49 per share over the past year. The dividend yield on that stock is 1.6 percent. What is her total return on this investment for the year?

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A) −11.31%
B) −10.49%
C) −9.11%
D) −7.76%
E) −8.04%

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

52) You have been researching a company and have estimated that the firm's stock will sell for $44 a share one year from now. You also estimate the stock will have a dividend yield of 2.18 percent. How much are you willing to pay per share today to purchase this stock if you desire a total return of 15 percent on your investment?

A) $37.55
B) $38.00
C) $38.24
D) $39.00
E) $40.20

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

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53) Shane purchased a stock this morning at a cost of $13 a share. He expects to receive an annual dividend of $.27 a share next year. What will the price of the stock have to be one year from today if Shane is to earn an 8 percent rate of return on this investment?

A) $12.38
B) $12.60
C) $12.88
D) $13.77
E) $14.28

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

54) Ellen just sold a stock and realized a 7.5 percent return for a 7-month holding period. What was her annualized rate of return?

A) 13.20%
B) 14.49%
C) 15.78%
D) 16.29%
E) 27.20%

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Topic : Annual, holding period, and effective rates
Bloom's : Apply

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55) You purchased a stock eight months ago for $36 a share. Today, you sold that stock for $41.50 a share. The stock pays no dividends. What was your annualized rate of return?

A) 23.32%
B) 23.77%
C) 25.70%
D) 26.03%
E) 27.67%

Question Details
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Topic : Annual, holding period, and effective rates
Difficulty : 2 Medium
Bloom's : Apply

56) Eight months ago, you purchased 300 shares of a non-dividend paying stock for $27 a share. Today, you sold those shares for $31.59 a share. What was your annualized rate of return on this investment?

A) 17.00%
B) 21.45%
C) 25.50%
D) 26.55%
E) 28.00%

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Question Details
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Topic : Annual, holding period, and effective rates
Difficulty : 2 Medium
Bloom's : Apply

57) Jack owned a stock for five months and earned an annualized rate of return of 6 percent. What was the holding period return?

A) 2.37%
B) 2.42%
C) 2.46%
D) 2.64%
E) 2.72%

Question Details
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Topic : Annual, holding period, and effective rates
Difficulty : 2 Medium
Bloom's : Apply

58) Scott purchased 200 shares of Frozen Foods stock for $48 a share. Four months later, he received a dividend of $.22 a share and also sold the shares for $42 each. What was his annualized rate of return on this investment?

A) −44.69%
B) −40.14%
C) −33.00%
D) −31.95%
E) −28.07%

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Question Details
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Topic : Annual, holding period, and effective rates
Difficulty : 2 Medium
Bloom's : Apply

59) A stock has an average historical risk premium of 6.1 percent. The expected risk-free rate for next year is 2.2 percent. What is the expected rate of return on this stock for next year?

A) 6.50%
B) 7.53%
C) 8.00%
D) 8.30%
E) 9.34%

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Learning Objective : 01-03 The historical risks on various important types of investments.
Bloom's : Apply
Topic : Expected return

60) Last year, ABC stock returned 12.6 percent, the risk-free rate was 4.0 percent, and the inflation rate was 2.5 percent. What was the risk premium on ABC stock?

A) 8.20%
B) 8.43%
C) 8.60%
D) 8.88%
E) 8.97%

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Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Topic : Risk premiums
Learning Objective : 01-03 The historical risks on various important types of investments.
Bloom's : Apply

61) Over the past four years, Jellystone Quarry stock produced returns of 12.5, 15.1, 8.7, and 2.6 percent, respectively. For the same time period, the risk-free rate 4.7, 5.3, 3.9, and 3.4 percent each year, respectively. What is the arithmetic average risk premium on this stock during these four years?

A) 5.13%
B) 5.25%
C) 5.40%
D) 5.83%
E) 5.97%

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Topic : Risk premiums
Learning Objective : 01-03 The historical risks on various important types of investments.
Bloom's : Apply

62) Over the past five years, Teen Clothing stock produced returns of 18.7, 5.8, 7.9, 10.8, and 11.6 percent, respectively. For the same five years, the risk-free rate was 5.2, 3.4, 2.8, 3.4, and 3.9 percent, respectively. What is the arithmetic average risk premium on Teen Clothing stock for this time period?

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A) 6.89%
B) 7.01%
C) 7.22%
D) 7.34%
E) 7.57%

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Topic : Risk premiums
Learning Objective : 01-03 The historical risks on various important types of investments.
Bloom's : Apply

63) Over the past ten years, large-company stocks have returned an average of 8.7 percent annually, long-term corporate bonds have earned 4.1 percent annually, and U.S. Treasury bills have returned 2.5 percent annually. How much additional risk premium would you have earned if you had invested in large-company stocks rather than long-term corporate bonds over those ten years?

A) 1.7%
B) 3.7%
C) 4.2%
D) 4.6%
E) 6.4%

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.3 Average Returns: The First Lesson
Topic : Risk premiums
Learning Objective : 01-03 The historical risks on various important types of investments.
Bloom's : Apply

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64) An asset had annual returns of 12, 18, 6, −9, and 5 percent, respectively, for the last five years. What is the variance of these returns?

A) .00810
B) .01013
C) .01065
D) .02038
E) .04052

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance
Bloom's : Apply

65) Over the past five years, Southwest Railway stock had annual returns of 10, 14, −6, 7.5, and 16 percent, respectively. What is the variance of these returns?

A) .00548
B) .00685
C) .00750
D) .01370
E) .02740

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance
Bloom's : Apply

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66) An asset had returns of 7.7, 5.4, 3.6, −4.2, and −1.3 percent, respectively, over the past five years. What is the variance of these returns?

A) .00173
B) .00184
C) .00216
D) .00239
E) .00259

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance
Bloom's : Apply

67) An asset had annual returns of 13, 10, −14, 3, and 36 percent, respectively, for the past five years. What is the standard deviation of these returns?

A) 8.96%
B) 16.05%
C) 17.92%
D) 18.09%
E) 20.03%

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance
Bloom's : Apply

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68) Over the past four years, a stock produced returns of 13, 6, −5, and 18 percent, respectively. What is the standard deviation of these returns?

A) 8.63%
B) 9.93%
C) 9.97%
D) 10.11%
E) 10.15%

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance
Bloom's : Apply

69) Downtown Industries common stock had returns of 7.2, 11.5, 10.5, and 7.5 percent, respectively, over the past four years. What is the standard deviation of these returns?

A) 2.15%
B) 2.38%
C) 2.41%
D) 2.59%
E) 2.82%

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance
Bloom's : Apply

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70) An asset has an average annual historical return of 11.6 percent and a standard deviation of 17.8 percent. What range of returns would you expect to see 95 percent of the time?

A) −41.8% to + 65.0%
B) −34.4% to + 53.6%
C) −24.0% to + 47.2%
D) −6.2% to + 29.4%
E) −5.4% to + 41.0%

Question Details
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.4 Return Variability: The Second Lesson
Topic : Normal probability distribution
Difficulty : 2 Medium
Learning Objective : 01-04 The relationship between risk and return.
Bloom's : Apply

71) A stock has an average historical return of 10.7 percent and a standard deviation of 19.3 percent. Which range of returns would you expect to see approximately two-thirds of the time?

A) 8.6% to + 30.0%
B) +4.6% to + 33.8%
C) −8.6% to + 30.0%
D) −3.9% to + 32.5%
E) −8.9% to + 31.5%

Question Details
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.4 Return Variability: The Second Lesson
Topic : Normal probability distribution
Difficulty : 2 Medium
Learning Objective : 01-04 The relationship between risk and return.
Bloom's : Apply

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72) An asset has an average historical rate of return of 13 percent and a variance of .0106. What range of returns would you expect to see approximately two-thirds of the time?

A) −2.28% to + 24.48%
B) −6.52% to + 32.92%
C) −9.58% to + 38.8%
D) +2.70% to + 23.30%
E) +13.1% to + 13.3%

Question Details
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.4 Return Variability: The Second Lesson
Topic : Normal probability distribution
Difficulty : 2 Medium
Learning Objective : 01-04 The relationship between risk and return.
Bloom's : Apply

73) Jeremy owns a stock that has historically returned 7.5 percent annually with a standard deviation of 10.2 percent. There is only a .5 percent chance that the stock will produce a return greater than _____ percent in any one year.

A) 20.9
B) 22.9
C) 32.2
D) 38.1
E) 54.8

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Question Details
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.4 Return Variability: The Second Lesson
Topic : Normal probability distribution
Difficulty : 2 Medium
Learning Objective : 01-04 The relationship between risk and return.
Bloom's : Apply

74) Jefferson Mills stock produced returns of 14.8, 22.6, 5.9, and 9.7 percent, respectively, over the past four years. During those same years, U.S. Treasury bills returned 3.8, 4.6, 4.8, and 4.0 percent, respectively. What is the variance of the risk premiums on Jefferson Mills stock for these four years?

A) .00298
B) .00196
C) .00396
D) .00478
E) .00528

Question Details
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance
Difficulty : 2 Medium
Bloom's : Apply

75) Over the past four years, the common stock of Jess Electronics Co. produced annual returns of 7.2, 5.8, 11.2, and 13.6 percent, respectively. Treasury bills produced returns of 3.4, 3.3, 4.1, and 4.0 percent, respectively over the same period. What is the standard deviation of the risk premium on Jess Electronics Co. stock for this time period?

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A) 2.23%
B) 2.86%
C) 3.22%
D) 4.46%
E) 4.61%

Question Details
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance
Difficulty : 2 Medium
Bloom's : Apply

76) Big Town Markets common stock returned 14.3, 12.5, 9.9, 6.5, and 11.1 percent, respectively, over the past five years. What is the arithmetic average return?

A) 10.86%
B) 11.04%
C) 11.66%
D) 12.20%
E) 13.80%

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

77) Over the past four years, Hi-Tech Development stock returned 35.2, 38.8, 18.4, and −32.2 percent annually. What is the arithmetic average return?

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A) 15.05%
B) 17.67%
C) 20.53%
D) 24.20%
E) 32.25%

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

78) You own a stock that has produced an arithmetic average return of 8.6 percent over the past five years. The annual returns for the first four years were 16, 11, −19, and 3 percent, respectively. What was the rate of return on the stock in year five?

A) −5.00%
B) 2.75%
C) 6.25%
D) 28.00%
E) 32.00%

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

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79) An asset had annual returns of 17, −35, −18, 24, and 6 percent, respectively, over the past five years. What is the arithmetic average return?

A) −1.2%
B) .8%
C) 1.2%
D) 1.6%
E) 2.3%

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

80) Celsius stock had year-end prices of $42, $37, $44, and $46 over the past four years, respectively. What is the arithmetic average rate of return?

A) 3.17%
B) 3.85%
C) 4.28%
D) 10.63%
E) 11.79%

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

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81) Blackstone Mines stock returned 10.5, 17.2, −9.0, and 14.5 percent over the past four years, respectively. What is the geometric average return?

A) 5.84%
B) 6.36%
C) 7.78%
D) 9.94%
E) 10.33%

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

82) You invested $6,000 six years ago. The arithmetic average return on your investment is 9.3 percent and the geometric average return is 9.57 percent. What is the value of your portfolio today?

A) $10,092
B) $10,382
C) $10,899
D) $10,947
E) $11,195

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

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83) Joanne invested $15,000 six years ago. Her arithmetic average return on this investment is 8.72 percent, and her geometric average return is 8.50 percent. What is Joanne's portfolio worth today?

A) $23,989
B) $24,472
C) $26,409
D) $26,514
E) $26,766

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

84) A stock produced annual returns of 8.3, −21, 12, 42, and 9 percent over the past five years, respectively. What is the geometric average return?

A) 5.78%
B) 6.03%
C) 6.34%
D) 7.21%
E) 8.20%

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Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

85) Over the past five years, an investment produced annual returns of 16.5, 21, −18, 4, and 17 percent, respectively. What is the geometric average return?

A) 6.42%
B) 7.06%
C) 8.00%
D) 15.60%
E) 16.00%

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

86) A portfolio had an original value of $7,400 seven years ago. The current value of the portfolio is $11,898. What is the average geometric return on this portfolio?

A) 7.02%
B) 7.47%
C) 7.59%
D) 7.67%
E) 7.88%

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Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

87) An initial investment of $40,000 fifty years ago is worth $1,822,222 today. What is the geometric average return on this investment?

A) 7.47%
B) 7.94%
C) 9.25%
D) 9.50%
E) 11.08%

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

88) A stock had year-end prices of $24, $27, $32, and $26 over the past four years, respectively. What is the geometric average return?

A) 2.02%
B) 2.18%
C) 2.55%
D) 2.70%
E) 2.81%

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Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

89) The geometric return on a stock over the past 10 years was 7.9 percent. The arithmetic return over the same period was 8.8 percent. What is the best estimate of the average return on this stock over the next 5 years?

A) 8.40%
B) 9.05%
C) 9.08%
D) 9.13%
E) 9.47%

Question Details
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Difficulty : 2 Medium
Bloom's : Apply

90) The geometric return on an asset over the past 12 years has been 14.50 percent. The arithmetic return over the same period was 14.96 percent. What is the best estimate of the average return on this asset over the next 5 years?

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A) 14.47%
B) 14.67%
C) 14.79%
D) 14.88%
E) 14.86%

Question Details
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Difficulty : 2 Medium
Bloom's : Apply

91) A stock has an average arithmetic return of 10.55 percent and an average geometric return of 10.41 percent based on the annual returns for the last 15 years. What is projected average annual return on this stock for the next 10 years?

A) 10.17%
B) 10.21%
C) 10.38%
D) 10.46%
E) 10.79%

Question Details
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Difficulty : 2 Medium
Bloom's : Apply

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92) Leeanne owns a stock that has an average geometric return of 12.30 percent and an average arithmetic return of 12.55 percent over the past six years. What average annual rate of return should Leeanne expect to earn over the next four years?

A) 12.38%
B) 12.40%
C) 12.44%
D) 12.47%
E) 12.51%

Question Details
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Difficulty : 2 Medium
Bloom's : Apply

93) Tom decides to begin investing some portion of his annual bonus, beginning this year with $6,000. In the first year he earns an 8 percent return and adds $3,000 to his investment. In the second his portfolio loses 4 percent but, sticking to his plan, he adds $1,000 to his portfolio. In this year his portfolio returns 2 percent. What is Tom's dollar-weighted average return on his investments?

A) .34%
B) 1.20%
C) 1.54%
D) 2.23%
E) 2.58%

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Question Details
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Difficulty : 2 Medium
Bloom's : Apply

94) Bill has been adding funds to his investment account each year for the past 3 years. He started with an initial investment of $1,000. After earning a 10 percent return the first year, he added $3,000 to his portfolio, but his investments lost 5 percent. Undeterred, Bill added $2,000 the next year and earned a 2 percent return. Last year, discouraged by the recent results, he only added $500 to his portfolio, but in this final year his investments earned 8 percent. What was Bill's dollar-weighted average return for his investments?

A) 1.5%
B) 2.0%
C) 2.5%
D) 3.0%
E) 3.5%

Question Details
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Difficulty : 2 Medium
Bloom's : Apply

95) John began his investing program with a $5,500 initial investment. The table below recaps his returns each year as well as the amounts he added to his investment account. What is his dollar-weighted average return?

Time	Investment	Return

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0	$ 5,500	8.5%
1	$ 2,000	-5.0%
2	$ 2,600	4.5%
3	$ 3,000	9.0%
4	$ 900	-2.5%

A) 1.5%
B) 1.8%
C) 2.0%
D) 2.2%
E) 2.6%

Question Details
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Difficulty : 2 Medium
Bloom's : Apply

96) Jim began his investing program with a $4,000 initial investment. The table below recaps his returns each year as well as the amounts he added to his investment account. What is his dollar-weighted average return?

Time	Investment	Return
0	$ 4,000	10%
1	$ 2,800	- 5%
2	$ 900	2%
3	$ 1,600	8%
4	$ 2,100	- 3%

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5	$ 2,400	6%

A) 1.6%
B) 2.2%
C) 2.6%
D) 3.2%
E) 3.6%

Question Details
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Difficulty : 2 Medium
Bloom's : Apply

97) One year ago, you purchased 400 shares of stock at a cost of $5,000. The stock paid an annual dividend of $1.13 per share. Today, you sold those shares for $13.60 each. What is the capital gains yield on this investment?

A) 8.80%
B) 9.96%
C) 11.50%
D) 12.7%
E) 14.75%

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Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

98) Eileen just sold a stock and realized a 6.25 percent return for a 7-month holding period. What was her annualized rate of return?

A) 9.98%
B) 10.95%
C) 12.78%
D) 15.29%
E) 17.20%

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Topic : Annual, holding period, and effective rates
Bloom's : Apply

99) Downtown Industries' common stock had returns of 5.2, 10.3, 9.3, and 9.5 percent, respectively, over the past four years. What is the standard deviation of these returns?

A) 2.29%
B) 2.38%
C) 2.41%
D) 2.59%
E) 2.82%

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Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-03 The historical risks on various important types of investments.
Section : 1.4 Return Variability: The Second Lesson
Topic : Standard deviation and variance
Bloom's : Apply

100) You own a stock that has produced an arithmetic average return of 5.6 percent over the past five years. The annual returns for the first four years were 15, 10, −18, and 8 percent, respectively. What was the rate of return on the stock in year five?

A) −5.00%
B) 2.75%
C) 6.25%
D) 13.00%
E) 32.00%

Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

101) A stock produced annual returns of 8.5, −18, 15, 17, and 12 percent over the past five years, respectively. What is the geometric average return?

A) 5.78%
B) 6.04%
C) 6.34%
D) 7.21%
E) 8.20%

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Question Details
Difficulty : 1 Easy
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Bloom's : Apply

102) Louis owns a stock that has had an average geometric return of 10.50 percent and an average arithmetic return of 11.00 percent over the past six years. What average annual rate of return should Louis expect to earn over the next four years?

A) 10.38%
B) 10.40%
C) 10.64%
D) 10.70%
E) 10.81%

Question Details
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Difficulty : 2 Medium
Bloom's : Apply

103) John began his investing program with a $6,500 initial investment. The table below recaps his returns each year as well as the amounts he added to his investment account. What is his dollar-weighted average return?

Time	Investment	Return
0	$ 6,500	7.5%
1	$ 2,500	-4.0%

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2	$ 3,100	5.0%
3	$ 3,000	8.0%
4	$ 800	-1.5%

A) 1.5%
B) 1.8%
C) 2.0%
D) 2.2%
E) 2.8%

Question Details
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Gradable : automatic
Section : 1.5 More on Average Returns
Topic : Arithmetic, geometric, and dollar-weighted returns
Difficulty : 2 Medium
Bloom's : Apply

104) One year ago, you purchased 100 shares of common stock at $25.00 per share. During the past year, you received dividends of $.75 per share. Today, you sold your shares for $24.00 per share. What is your total return on this investment?

A) -.50%
B) -1.00%
C) .50%
D) 1.00%
E) -10.00%

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Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

105) A single common stock share was purchased for $50.00 at the beginning of the year. The end of year stock price was $49.35. What was the amount of the annual dividend if the total return for the year was 2.3 percent?

A) $1.25 per share
B) $1.40 per share
C) $1.60 per share
D) $1.80 per share
E) $2.20 per share

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

106) You purchased a stock for $35.00 a share and resold it one year later. Your total return for the year was 7.5 percent and the dividend yield was 1.4 percent. At what price did you resell the stock?

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A) $35.75
B) $36.05
C) $36.15
D) $37.14
E) $38.24

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

107) Jimmy purchased a stock for $22.22 a share, received a dividend of $.55 a share, and sold the stock after one year for $25.36 a share. What was his dividend yield on this investment?

A) 2.30%
B) 2.38%
C) 2.48%
D) 2.56%
E) 2.65%

Question Details
Difficulty : 1 Easy
Section : 1.1 Returns
Topic : Stock returns and yields
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Bloom's : Apply

108) You purchased a stock eight months ago for $55 a share. Today, you sold that stock for $64.50 a share. The stock pays no dividends. What was your annualized rate of return?

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A) 17.27%
B) 18.15%
C) 18.35%
D) 19.34%
E) 27.00%

Question Details
Section : 1.1 Returns
Learning Objective : 01-01 How to calculate the return on an investment using different methods.
Accessibility : Keyboard Navigation
Accessibility : Screen Reader Compatible
Gradable : automatic
Topic : Annual, holding period, and effective rates
Difficulty : 2 Medium
Bloom's : Apply

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Answer Key

Test name: 001

1) C
See Section 1.1
2) B
See Section 1.1
3) D
See Section 1.1
4) D
See Section 1.1
5) E
See Section 1.3
6) C
See Section 1.3
7) A
See Section 1.3
8) E
See Section 1.3
9) A
See Section 1.4
10) A
See Section 1.4
11) E
See Section 1.5
12) E
See Section 1.5
13) C
See Section 1.5

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14) B
See Section 1.1
15) D
See Section 1.1
16) E
See Section 1.1 (There are four 3-month periods in a year)
17) D
See Section 1.1
18) C
See Section 1.1
19) E
See Section 1.1
20) D
See Section 1.2
21) D
See Section 1.1
22) D
See Section 1.2
23) B
See Section 1.2
24) E
See Section 1.2
25) D
See Section 1.3
26) A
See Section 1.3
27) B
See Section 1.3
28) B
See Section 1.3

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29) B
See Section 1.3
30) E
See Section 1.4
31) D
See Section 1.4
32) D
See Section 1.4
33) D
See Section 1.4
34) B
See Section 1.4
35) D
See Section 1.4
36) C
See Section 1.4
37) A
See Section 1.4
38) A
See Section 1.4
39) E
See Section 1.5
40) E
See Section 1.5
41) D
See Section 1.5
42) A
See Section 1.5
43) C
$1.36 / $39.50 = .03443, or 3.443%

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44) A
$.70 / $30.43 = .0230, or 2.30%
45) D
[($23.90 × 500) − $10,500)] / $10,500 = .1381, or 13.81 percent
46) A
($55.50 − $60.02) / $60.02 = −.0753, or −7.53%
47) B
[$38.50 − $36.20 + ($250 / 400)] / $36.20 = .808, or 8.08%
48) E
Capital gains yield = 11.5% − 2.8% = 8.7%

$50.00 × (1 + .087) = $54.35
49) C
($25.50 − $25 + D) / $25 = .085; D = $1.63
50) C
600 × ($71.30 − $68.20 + $1.42) = $2,712
51) D
[($39.49 − $43.57) / $43.57] +.016= −.0776, or −7.76%
52) D
.15 = [($44 − P_0) / P_0] + .0218; P_0 = $39.00
53) D
.08 = (P_1 − $13 + $.27) / $13; P_1 = $13.77
54) A
1 + EAR = $(1 + .075)^{12/7} - 1$ = .1320, or 13.20%
55) B
HPR = ($41.50 − $36) / $36 = .1528

Annualized rate of return = $(1 + .1528)^{12/8} - 1$ = .2377, or 23.77%
56) D

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HPR = ($31.59 − $27) / $27 = .17

Annualized rate of return = $(1 + .17)^{12 / 8} - 1 = .2655$, or 26.55%

57) C

Annualized return = $(1 + x)^{12 / 5} - 1 = .06$; $x = 1.06^{5 / 12} - 1$; x = HPR = 2.46 percent

58) D

HPR = ($42 − $48 + $.22) / $48 = −.120417

Annualized return = $(1 - .120417)^{12/4} - 1 = -.3195$, or −31.95%

59) D

Expected return = 6.1% + 2.2% = 8.3%

60) C

Risk premium = 12.60% − 4.00% = 8.60%

61) C

Average risk premium = [(.125 − .047) + (.151 − .053) + (.087 − .039) + (.026 − .034)] / 4 = .540, or 5.40%

62) C

Average risk premium = [(.187 − .052) + (.058 − .034) + (.079 − .028) + (.108 − .034) + (.116 − .039)] / 5 = .0722, or 7.22%

63) D

Additional risk premium = (.087 − .025) − (.041 − .025) = .0460, or 4.60%

64) B

Mean = (.12 + .18 + .06 − .09 + .05) / 5 = .064

Var = $[(.12 - .064)^2 + (.18 - .064)^2 + (.06 - .064)^2 + (-.09 - .064)^2 + (.05 - .064)^2] / (5 - 1) = .01013$

65) C

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Mean = (.10 + .14 − .06 + .075 + .16) / 5 = .0830

Var = $[(.10 - .083)^2 + (.14 - .083)^2 + (-.06 - .083)^2 + (.075 - .083)^2 + (.16 - .083)^2] / (5 - 1) = .00750$

66) D

Mean = (.077 + .054 + .036 − .042 − .013) / 5 = .0224

Var = $[(.077 - .0224)^2 + (.054 - .0224)^2 + (.036 - .0224)^2 + (-.042 - .0224)^2 + (-.013 - .0224)^2] / (5 - 1) = .00239$

67) D

Mean = (.13 + .10 − .14 + .03 + .36) / 5 = .096

Var = $[(.13 - .096)^2 + (.10 - .096)^2 + (-.14 - .096)^2 + (.03 - .096)^2 + (.36 - .096)^2] / (5 - 1) = .032730$

Std Dev = √ (.032730) = .1809, or 18.09%

68) C

Mean = (.13 + .06 − .05 + .18) / 4 = .08

Var = $[(.13 - .08)^2 + (.06 - .08)^2 + (-.05 - .08)^2 + (.18 - .08)^2] / (4 - 1) = .009933$

Std Dev = √ (.009933) = .997, or 9.97%

69) A

Mean = (.072 + .115 + .105 + .075) / 4 = .0918

Var = $[(.072 - .0918)^2 + (.115 - .0918)^2 + (.105 - .0918)^2 + (.075 - .0918)^2] / (4 - 1) = .000462$

Std Dev = √ (.000462) = .215, or 2.15%

70) C

Range = 11.6% ± 2(17.8%) = −24.0% to + 47.2%

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71) C
Range = 10.7% ± 19.3% = −8.6% to + 30.0%
72) D
Range = .13 ± √(.0106) = + 2.70% to + 23.30%
73) D
Return = 7.5% + 3(10.2%) = 38.1%
74) E
Annual risk premiums are 11.0, 18.0, 1.1, and 5.7 percent, respectively.

Mean = (.11 + .18 + .011 + .057) / 4 = .0895

Var = $[(.11 - .0895)^2 + (.18 - .0895)^2 + (.011 - .0895)^2 + (.057 - .0895)^2] / (4 - 1) = .00528$
75) C
Annual risk premiums are 3.8, 2.5, 7.1, and 9.6 percent, respectively.

Mean = (.038 + .025 + .071 + .096) / 4 = .0575

Var = $[(.038 - .0575)^2 + (.025 - .0575)^2 + (.071 - .0575)^2 + (.096 - .0575)^2] / (4 - 1) = .001034$

Std Dev = √ (.001034) = .0322, or 3.22%
76) A
Return = (.143 + .125 + .099 + .065 + .111) / 5 = .1086, or 10.86%
77) A
Return = (.352 + .388 + .184 − .322) / 4 = .1505, or 15.05%
78) E
Total return = .086 × 5 = .43

Year 5 return = .43 − (.16 + .11 − .19 + .03) = .32, or 32%
79) A
Average = (.17 − .35 − .18 + .24 + .06) / 5 = −.012, or −1.2%

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80) B
Annual returns are: ($37 − $42) / $42 = −.119048;($44 − $37) / $37 = .189189;

($46 − $44) / $44 = .045455

Average = (−.119048 + .189189 + .045455) / 3 = .0385, or 3.85 percent
81) C
Geometric average = $[(1 + .105)(1 + .172)(1 - .090)(1 + .145)]^{1/4} - 1$ = .0778, or 7.78%
82) B
FV = $\$6{,}000 \times (1 + .0957)^6 = \$10{,}382$
83) B
FV = $\$15{,}000 \times (1 + .085)^6 = \$24{,}472.01$
84) E
Geometric average = $[(1 + .083)(1 - .21)(1 + .12)(1 + .42)(1 + .09)]^{1/5} - 1$ = .0820, or 8.20%
85) B
Geometric average = $[(1 + .165)(1 + .21)(1 - .18)(1 + .04)(1 + .17)]^{1/5} - 1$ = .0706, or 7.06%
86) A
$\$7{,}400\ (1 + R)^7 = \$11{,}898$; R = 7.02%

87) B
$\$40{,}000(1 + R)^{50} = \$1{,}822{,}222$; R = 7.94%

N = 50; PV = −$40,000, PMT = 0, FV = $1,822,222; I / y = 7.94%
88) D
$(\$26 / \$24)^{1/3} - 1$ = .0270, or 2.70%
89) A

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Projected return = {[(5 − 1) / (10 − 1)] × .0790} + {[(10 − 5) / (10 − 1)] × .0880} = .0840, or 8.40%

90) C

Projected return = {[(5 − 1) / (12 − 1)] × .1450} + {[(12 − 5) / (12 − 1)] × .1496} = .1479, or 14.79%

91) D

Projected return = {[(10 − 1) / (15 − 1)] × .1041} + {[(15 − 10) / (15 − 1)] × .1055} = .1046, or 10.46%

92) B

Projected return = {[(4 − 1) / (6 − 1)] × .1230} + {[(6 − 4) / (6 − 1)] × .1255} = .1240, or 12.40%

93) B

Using the Cash Flow function in a financial calculator, the cash flows to be entered are:

CF0 = −$6,000

CF1 = −$3,000

CF2 = −$1,000

CF3 = ((($6,000 × 1.08) + $3,000) × .96) + $1,000) × 1.02 = $10,302.82

Solve for IRR = 1.20%

94) D

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Using the Cash Flow function in a financial calculator, the cash flows to be entered are:

CF0 = −$1,000

CF1 = −$3,000

CF2 = −$2,000

CF3 = −$500

CF4 = (((($1,000 × 1.1) + $3,000) × .95) + $2,000) × 1.02 + $500) × 1.08 = $7,033.93

Solve for IRR = 3.0%

95) E

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Using the Cash Flow function in a financial calculator, the cash flows to be entered are:

CF0 = −$5,500

CF1 = −$2,000

CF2 = −$2,600

CF3 = −$3,000

CF4 = −$900

CF5 = $15,359.31 (see calculations below)

Solve for IRR = 2.6%

$5,500 × (1.085) = $5,967.50

($5,967.50 + $2,000) × (.95) = $7,569.13

($7,569.13 + $2,600) × (1.045) = $10,626.74

($10,626.74 + $3,000) × (1.09) = $14,853.14

($14,853.14 + $900) × (.975) = $15,359.31

96) C

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Using the Cash Flow function in a financial calculator, the cash flows to be entered are:

CF0 = −$4,000

CF1 = −$2,800

CF2 = −$900

CF3 = −$1,600

CF4 = −$2,100

CF5 = −$2,400

CF6 = $15,246.78 (see calculations below)

Solve for IRR = 2.6%

$4,000 × (1.10) = $4,400

($4,400 + $2,800) × (.95) = $6,840

($6,840 + $900) × (1.02) = $7,894.80

($7,894.80 + $1,600) × (1.08) = $10,254.38

($10,254.38 + $2,100) × (.97) = $11,983.75

($11,983.75 + $2,400) × (1.06) = $15,246.78

97) A

[($13.60 × 400) − $5,000] / $5,000 = .0880, or 8.80%

98) B

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$1 + EAR = (1 + .0625)^{12/7} - 1 = .1095$, or 10.95%

99) A

Mean = (.052 + .103 + .093 + .095) / 4 = .0858

Var = $[(.052 - .0858)^2 + (.103 - .0858)^2 + (.093 - .0858)^2 + (.095 - .0858)^2] / (4 - 1) = .00052492$

Std Dev = $\sqrt{}$ (.00052492) = .0229, or 2.29%

100) D

Total return = .056 × 5 = .28

Year 5 return = .28 − (.15 + .10 − .18 + .08) = .13, or 13%

101) B

Geometric average = $[(1 + .085)(1 - .18)(1 + .15)(1 + .17)(1 + .12)]^{1/5} - 1 = .0604$, or 6.04%

102) D

Projected return = {[(4 − 1) / (6 − 1)] × .1050} + {[(6 − 4) / (6 − 1)] × .1100} = .1070, or 10.70%

103) E

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Using the Cash Flow function in a financial calculator, the cash flows to be entered are:

CF0 = −$6,500

C01 = −$2,500

C02 = −$3,100

C03 = −$3,000

C04 = $800

C05 = $17,615.61 (see calcs below)

Solve for IRR = 2.8%

$6,500 × (1.075) = $6,987.50

($6,987.50 + $2,500) × (.96) = $9,108.00

($9,108.00 + $3,100) × (1.05) = $12,818.40

($12,818.40 + $3,000) × (1.08) = $17,083.87

($17,083.87 + $800) × (.985) = $17,615.61

104) B

[$24.00 − $25.00 + $.75] / $25.00 = −.0100, or −1.00%

105) D

($49.35 − $50.00 + D) / $50.00 = .023; D = $1.80

106) D

Capital gains yield = 7.5% – 1.4% = 6.1%

$35.00 × (1 + .061) = $37.14

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107) C
$.55 / $22.22 = .0248, or 2.48%
108) E
HPR = ($64.5 − $55) / $55 = .1727, or 17.27%

Annualized rate of return = $(1 + .1727)^{12 / 8} - 1 = .2700$, or 27.00%

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