

Student: _____

1. A brokerage account in which purchases can be made using credit is referred to as which type of account?

- A. clearing
- B. funds available
- C. cash
- D. call
- E. margin

2. The call money rate is the:

- A. rate investors' pay on margin loans.
- B. percentage of a security's value that must be maintained as margin.
- C. interest rate that must be paid on any margin shortfall.
- D. rate a broker pays to a bank for funds loaned to customer margin accounts.
- E. minimum percentage rate of equity that must be maintained in a margin account.

3. Kate just purchased \$7,000 worth of stock. She paid \$5,000 in cash and borrowed \$2,000. In this example, the term margin refers to:
- A. the total amount of the purchase.
 - B. the percentage of the purchase that was paid in cash.
 - C. the percentage of the purchase paid with borrowed funds.
 - D. any future increase in the value of the stock.
 - E. any future decrease in the value of the stock.
4. Which one of the following best describes the term "initial margin"?
- A. amount of money that must be deposited to open a margin account with a broker
 - B. amount of cash that must be paid to purchase a security on margin
 - C. amount of cash that must be paid when a broker issues a margin call
 - D. amount of money borrowed when a security is purchased
 - E. total loan amount offered to a customer by a brokerage firm to cover future purchases
5. The minimum equity that must be maintained at all times in a margin account is called the:
- A. initial margin.
 - B. initial equity position.
 - C. maintenance margin.
 - D. call requirement.
 - E. margin call.

6. When your equity position in a security is less than the required amount, your brokerage firm will issue a:
- A. margin call.
 - B. margin certificate.
 - C. cash certificate.
 - D. limit order.
 - E. leverage call.
7. Stuart purchased 300 shares of Microsoft stock which he has pledged to his broker as collateral for the loan in his margin account. This process of pledging securities is called:
- A. margin calling.
 - B. hypothecation.
 - C. leveraging.
 - D. maintaining the margin.
 - E. street securitization.
8. Staci owns 1,000 shares of stock in a margin account. Those shares are most likely held in:
- A. transit.
 - B. her registered name.
 - C. street name.
 - D. a wrap account.
 - E. a discretionary account.

9. This morning, Josh sold 800 shares of stock that he did not own. This sale is referred to as a:
- A. margin sale.
 - B. long position.
 - C. wrap trade.
 - D. hypothecated sale.
 - E. short sale.
10. The amount of common stock held in short positions is referred to as the short:
- A. margin.
 - B. shares.
 - C. proceeds.
 - D. sale.
 - E. interest.
11. Market timing is the:
- A. placing of an order within the last half-hour of trading for a day.
 - B. period of time between the placement of a short sale and the covering of that sale.
 - C. buying and selling of securities in anticipation of the overall direction of the market.
 - D. staggering of either buy or sell orders to mask the total size of a large transaction.
 - E. placing of trades within the last half-hour prior to the commencement of daily trading.

12. Asset allocation is the:

- A. selection of specific securities within a particular class or industry.
- B. division of a purchase price between a cash payment and a margin loan.
- C. division of a portfolio into short and long positions.
- D. distribution of investment funds among various broad asset classes.
- E. dividing of assets into those that are hypothecated and those that are not.

13. Jesse is researching chemical companies in an effort to determine which company's stock he should purchase. This process is known as:

- A. market timing.
- B. purchase shorting.
- C. marketing research.
- D. asset allocation.
- E. security selection.

14. A company that owns income-producing real estate such as an apartment complex or a retail shopping center is called a(n):

- A. REIT.
- B. SIPC.
- C. REEF.
- D. EAR.
- E. SPIC.

15. Ted recently inherited a large sum of money that he wants to invest in the stock market. Since he has no investment experience, he has decided that he would like to work with a professional who can explain the market to him and also manage his funds for him. Ted most likely needs the services offered by a(n):

- A. deep-discount broker.
- B. discount broker.
- C. full-service broker.
- D. online broker.
- E. cyberbroker.

16. Which one of the following statements is correct?

- A. Most brokerage agreements require disputes be settled in a court of law.
- B. Arbitration is a formal legal process for settling disputes related to brokerage accounts.
- C. Churning is the preferred method of providing deep-discount brokerage services.
- D. Discount brokers only provide order execution services.
- E. Full service brokers frequently provide financial planning services to clients.

17. Martin has an investment account with William, who is a broker with City Brokerage. Martin believes that William has mishandled his account by churning it. If he files a complaint against William seeking compensation, the case will most likely be decided by:
- A. the office manager of City Brokerage.
 - B. a civil suit judge.
 - C. a jury.
 - D. an arbitration panel.
 - E. the SEC Hearing Board.
18. You currently have \$5,000 in cash in your brokerage account. You decide to spend \$8,000 to purchase shares of stock and borrow \$3,000 from your broker to do so. Which type of brokerage account do you have?
- A. cash
 - B. wrap
 - C. margin
 - D. short
 - E. asset allocation
19. Which one of the following statements is correct?
- A. The call money rate is the rate of interest brokerage firms charge on margin loans.
 - B. The spread is the fee a deep-discount broker charges to execute a trade.
 - C. The percentage of a purchase paid for with borrowed funds is referred to as the margin.
 - D. A margin loan is treated as an asset on an account balance sheet.
 - E. Margin is equal to account equity divided by the value of the securities owned.

20. Staci just used \$6,000 of cash plus a \$3,000 margin loan to purchase \$9,000 worth of stock. This is the only transaction in her brokerage account. According to her account balance sheet, she now has account equity of:

- A. \$3,000.
- B. \$6,000.
- C. \$9,000.
- D. \$12,000.
- E. \$15,000.

21. Amy just purchased \$12,000 of stock. She paid \$9,000 in cash and borrowed the remaining \$3,000 needed to pay for this purchase. If you constructed a balance sheet reflecting this transaction, the total assets would be:

- A. \$3,000.
- B. \$9,000.
- C. \$12,000.
- D. \$15,000.
- E. \$21,000.

22. Anita wants to buy \$10,000 of securities in her margin account. Her advisor has informed her that she must pay a minimum of \$7,000 in cash and maintain a minimum equity position of 30 percent. The initial margin requirement is _____ percent and the maintenance margin is _____ percent.

A. 30; 30

B. 30; 70

C. 70; 30

D. 70; 50

E. 70; 70

23. The absolute minimum initial margin requirement is set by the:

A. individual investor.

B. brokerage firm.

C. Federal Reserve.

D. Security Investors Protection Corporation.

E. Securities and Exchange Commission.

24. You open a margin account with a local broker and purchase shares of stock. The house maintenance margin requirement for your account is set by:

A. your broker.

B. the stock exchange.

C. the SEC.

D. the SIPC.

E. the Federal Reserve.

25. If you opt to purchase shares of stock on margin rather than with cash, you will:

- A. decrease your maximum potential rate of return.
- B. increase your maximum potential rate of return.
- C. guarantee yourself a profit.
- D. eliminate any potential profit.
- E. have equal rates of return regardless of how the purchase is made.

26. Which one of the following formulas is correct for determining the critical price on a long stock position?

- A. $P^* = (\text{Amount borrowed} / \text{Number of shares}) / (1 - \text{Maintenance margin})$
- B. $P^* = (\text{Amount borrowed} / \text{Number of shares}) / (1 + \text{Maintenance margin})$
- C. $P^* = (\text{Amount borrowed} / \text{Number of shares}) / (\text{Maintenance margin})$
- D. $P^* = (\text{Amount borrowed} / \text{Number of shares}) / (\text{Initial margin} - \text{Maintenance margin})$
- E. $P^* = (\text{Amount borrowed} / \text{Number of shares}) / (1 + \text{Initial margin})$

27. What is the purpose of a margin call?

- A. to inform you that your margin loan is due and payable
- B. to demand funds to increase your margin position
- C. to let you know the amount of funds that are now available for you to borrow
- D. to advise you that the interest rate on your loan has changed
- E. to remind you of the upcoming monthly payment due on your margin loan

28. If you ignore a margin call, your broker:

- A. will seize all the assets in your account.
- B. will close your account.
- C. may place a short sale on your behalf to cover the amount of the call.
- D. may sell some of your securities to repay the margin loan.
- E. will increase both your margin loan and the rate of interest on that loan.

29. Lauren Mitchell has a margin account with a local brokerage firm, RL Brokers. She recently purchased 200 shares of Abbot Industries common stock that trades on the New York Stock Exchange (NYSE). These shares are held in street name and are registered under the name of:

- A. Lauren Mitchell.
- B. RL Brokers.
- C. Abbot Industries.
- D. the New York Stock Exchange.
- E. the Securities and Exchange Commission.

30. Which one of the following is generally true concerning securities held in street name?

- A. The securities are registered under your mailing address rather than your name.
- B. There is a greater likelihood the security may be stolen.
- C. All dividend checks are mailed to your street address.
- D. The annual stock report is mailed directly to your street address.
- E. The brokerage firm is the owner of record.

31. Sarah has a brokerage account with Jeff, who is a money manager with Downtown Brokers. Sarah pays an all-inclusive annual fee to the firm and Jeff manages her funds. She pays no trading costs or commissions. Which one of the following best describes this type of account?

- A. wrap
- B. cash
- C. margin
- D. mutual
- E. advisory

32. A discretionary account:

- A. authorizes a broker to trade securities on your behalf.
- B. charges an annual fee to cover all trading and management services.
- C. is the term applied to brokerage accounts with check-writing and credit card services.
- D. is the same as a wrap account.
- E. is the account used to pledge securities as collateral for a margin loan.

33. An investor with a long position in a security will make money:

- A. if the price of the security increases.
- B. if the price of the security declines.
- C. if the price of the security remains stable.
- D. only if the security has been purchased on margin.
- E. only by shorting the security.

34. Which one of the following describes a short position?

- A. purchasing a security on margin
- B. selling a security that you originally purchased on margin
- C. loaning a security to your broker to cover a margin call
- D. having less equity than required in your margin account
- E. selling a security that you do not own

35. On August 8 of this year, Brent sold 500 shares of ADO stock for \$24 a share. On September 6 of this year, he purchased 500 shares of ADO stock to cover his position. The transaction on August 8:

- A. was a short sale.
- B. was a margin trade.
- C. was a wrap transaction.
- D. created a long transaction.
- E. was a pooling transaction.

36. A short sale:

- A. creates a long position in a stock.
- B. involves the borrowing of securities.
- C. is the purchase of less than 100 shares of a stock.
- D. is a bullish outlook towards a security.
- E. is the resale of a security within four hours of purchase.

37. If you benefit when a security decreases in value, you have a _____ position in the security.

- A. long
- B. margined
- C. short
- D. covered
- E. wrapped

38. In the critical price formula for a short sale of an equity security, the variable "short proceeds" refers to the:

- A. amount of the initial cash deposit.
- B. amount of the margin loan.
- C. cash received from the sale of the stock.
- D. cash profit earned when the short is covered.
- E. cash needed to cover the margin loan interest.

39. The maximum loss you can incur on a short sale is:

- A. limited to your initial equity.
- B. limited to your initial margin.
- C. limited to the margin loan plus interest.
- D. zero.
- E. unlimited.

40. What is the maximum loss you can incur if you have a long position on a stock in a cash account?

- A. the initial investment
- B. the initial margin
- C. the margin loan plus interest
- D. zero
- E. unlimited

41. An investor who has a resource constraint:

- A. pays no income taxes.
- B. has insufficient funds to purchase a security.
- C. has a relatively high marginal tax rate.
- D. has only one source of income.
- E. will only invest in socially acceptable securities.

42. Anna is a day trader who constantly buys and sells only blue chip stocks. She has a(n) _____ asset allocation strategy and a(n) _____ security selection strategy.

- A. active; active
- B. active; passive
- C. active; neutral
- D. passive; active
- E. passive; passive

43. To be considered liquid, a security must:

- A. be held in a cash account.
- B. pay dividends.
- C. be able to be sold on short notice.
- D. be held for less than one year.
- E. be able to be sold quickly with little, if any, price concession.

44. Wythe is trying to decide whether he wants to purchase shares in General Motors, Ford, or Honda, all of which are auto manufacturers. Wythe is making a(n) _____ decision.

- A. security selection
- B. tax-advantaged
- C. risk aversion
- D. active strategy
- E. asset allocation

45. Brooke has decided to invest 55 percent of her money in large company stocks, 40 percent in small company stocks, and 5 percent in cash. This is a(n) _____ decision.

- A. market timing
- B. security selection
- C. tax-advantaged
- D. active strategy
- E. asset allocation

46. Kay plans to retire in two years and wishes to liquidate her account at that time. Kay has a _____ constraint.

- A. resource
- B. horizon
- C. liquidity
- D. tax
- E. special circumstances

47. The SIPC:

- A. guarantees investors against any loss related to an investment account held at a brokerage firm.
- B. guarantees cash balances held in brokerage accounts up to \$500,000.
- C. is an agency of the federal government.
- D. protects private brokerage firms from bankruptcy.
- E. protects investors from missing assets when a brokerage firm closes.

48. The determination of which individual stocks to purchase within a particular asset class is referred to as:

- A. security selection.
- B. asset allocation.
- C. security analysis.
- D. market timing.
- E. market selection.

49. An investor who follows a fully active strategy will:
- A. move money between asset classes as well as try to select the best performers in each class.
 - B. move money between asset classes but will not be concerned about which individual securities are owned.
 - C. focus on picking individual stocks only.
 - D. maintain a relatively constant mix of asset classes while continually buying and selling individual securities.
 - E. concentrate solely on asset allocation to maximize potential returns.
50. Which one of the following decisions falls under the category of asset allocation?
- A. purchasing Ford stock rather than General Motors stock
 - B. determining that thirty percent of a portfolio should be invested in bonds
 - C. adopting a passive investment strategy
 - D. deciding to actively analyze individual securities
 - E. deciding to use an online broker
51. Taylor Industries stock is selling for \$32 a share. You would like to purchase as many shares of this stock as you can. Your margin account currently has available cash of \$6,200 and the initial margin requirement is 60 percent. What is the maximum number of shares you can buy?
- A. 193 shares
 - B. 252 shares
 - C. 322 shares
 - D. 360 shares
 - E. 408 shares

52. Todd has a margin account with \$17,400 in available cash. The initial margin is 70 percent and the maintenance margin is 30 percent. What is the maximum number of shares he can purchase if the price per share is \$44?

- A. 395 shares
- B. 564 shares
- C. 698 shares
- D. 744 shares
- E. 842 shares

53. Theresa has a margin account with a 60 percent initial margin requirement and a 35 percent maintenance margin. What is the maximum dollar amount of stock she can purchase if her cash balance in the account is \$31,900?

- A. \$19,140.00
- B. \$31,900.00
- C. \$44,093.33
- D. \$53,166.67
- E. \$91,142.86

54. You recently purchased 900 shares of Western Timber stock for \$38 a share. Your broker required a cash payment of \$25,650, plus trading costs, for this purchase. What was the initial margin requirement?
- A. 60 percent
 - B. 65 percent
 - C. 70 percent
 - D. 75 percent
 - E. 80 percent
55. Donna recently purchased 500 shares of Deltona stock for \$28.60 a share. Her broker required a cash payment of \$12,155, plus trading costs, for the purchase. What is the initial margin requirement on this particular stock?
- A. 70 percent
 - B. 75 percent
 - C. 85 percent
 - D. 90 percent
 - E. 100 percent

56. Suzette recently purchased 300 shares of Nu Electronics stock for \$4.40 a share. Her broker required a cash payment of \$1,320, plus trading costs, for the purchase. What is the initial margin requirement on this stock?

- A. 70 percent
- B. 75 percent
- C. 80 percent
- D. 90 percent
- E. 100 percent

57. Stephen is purchasing 800 shares of KPT, Inc., stock at a price per share of \$18.70. What is the minimum amount the Federal Reserve will require Stephen to pay in cash for this purchase?

- A. \$4,488
- B. \$7,480
- C. \$10,500
- D. \$11,968
- E. \$14,960

58. Alfonso purchased 600 shares of Crosswinds, Inc., stock on 60% margin when the stock was selling for \$37 a share. The stock is currently selling for \$32 a share. What is his current equity position?
- A. \$7,680
 - B. \$8,880
 - C. \$9,600
 - D. \$10,320
 - E. \$11,560
59. You purchased 1,200 shares of stock at \$52 a share. The stock is currently selling for \$55 a share. The initial margin was 70 percent and the maintenance margin is 30 percent. What is your current margin position?
- A. 28.36 percent
 - B. 25.00 percent
 - C. 75.00 percent
 - D. 63.59 percent
 - E. 71.64 percent

60. You own 700 shares of a stock that you purchased on margin at a price per share of \$20.12. The stock is currently valued at \$23 a share. Your broker advised you today that your minimum equity position for this purchase is \$5,635 as of today. What is the maintenance margin percentage?

- A. 25 percent
- B. 30 percent
- C. 35 percent
- D. 40 percent
- E. 50 percent

61. Sun Lee purchased 1,100 shares of Franklin Metals stock for \$16.80 a share. The stock was purchased with an initial margin of 65 percent. The maintenance margin is 30 percent. The stock is currently selling for \$18.10 a share. What is the minimum dollar amount of equity that he must have in this stock today to avoid a margin call?

- A. \$5,544
- B. \$5,621
- C. \$5,700
- D. \$5,811
- E. \$5,973

62. Rosita purchased 300 shares of a stock for \$37 a share. Today, the stock is selling for \$41 a share. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. Rosita had to pay _____ in cash to purchase the stock and must have at least _____ in equity today.
- A. \$3,690; \$3,330
 - B. \$3,690; \$3,690
 - C. \$7,770; \$3,330
 - D. \$7,770; \$3,690
 - E. \$8,610; \$3,690
63. Allan purchased 600 shares of stock on margin for \$41 a share and sold the shares five months later for \$43 a share. The initial margin requirement was 65 percent and the maintenance margin was 30 percent. The interest rate on the margin loan was 10 percent. He received no dividend income. What was his holding period return?
- A. 1.05 percent
 - B. 5.32 percent
 - C. 4.88 percent
 - D. 7.50 percent
 - E. 7.82 percent

64. Tony purchased 100 shares of T-Rex stock for \$43 a share. On the same day, Sam also purchased 100 shares of T-Rex stock for \$43 a share. Tony paid cash for his purchase while Sam used margin. The initial margin requirement on this stock is 60 percent while the maintenance margin is 40 percent. Both Tony and Sam sold their shares after eight months at a price of \$40 a share. The stock pays no dividends. Tony had a holding period percentage return of _____ percent as compared to Sam's _____ percent return. Ignore margin interest and trading costs.

- A. -4.19; -6.98
- B. -4.19; -11.63
- C. -6.98; -4.19
- D. -6.98; -11.63
- E. -11.63; -7.56

65. Stacy purchased 500 shares of stock for \$48 a share. She sold those shares six months later for \$43 a share. The initial margin requirement is 80 percent and the maintenance margin is 40 percent. Ignore margin interest and trading costs. If she purchased the shares for cash her holding period return would be _____ percent as compared to _____ percent if she had used margin.

- A. -10.42; -8.34
- B. -10.42; -13.02
- C. -11.63; -9.30
- D. -11.63; -14.54
- E. -12.27; -9.82

66. A stock was purchased for \$51 a share and sold eleven months later for \$54 a share. If the shares were purchased totally with cash the holding period return would be _____ percent as compared to _____ percent if the purchase was made using 70 percent margin. Ignore trading costs and margin interest.

A. 5.56; 3.89

B. 5.56; 7.94

C. 5.88; 4.12

D. 5.88; 6.69

E. 5.88; 8.40

67. You purchased a stock for \$19.60 a share using 70 percent margin. You sold the stock seven months later for \$20.80 a share. You did not receive any dividend income. What was your holding period percentage return on this investment? Ignore trading costs and margin interest.

A. 5.77 percent

B. 6.12 percent

C. 8.24 percent

D. 8.75 percent

E. 9.13 percent

68. Rudolfo purchased 900 shares of stock for \$62.20 a share and sold them ten months later for \$64.60 a share. The initial margin requirement on this stock is 75 percent and the maintenance margin is 40 percent. Ignoring dividends and costs, what is his holding period return?
- A. 3.72 percent
 - B. 3.86 percent
 - C. 4.54 percent
 - D. 4.95 percent
 - E. 5.14 percent
69. Marti purchased 100 shares of Better Foods stock on margin at a price of \$43 a share. The initial margin requirement is 60 percent and the maintenance margin is 30 percent. What is the lowest the stock price can go before Marti receives a margin call?
- A. \$17.20
 - B. \$22.36
 - C. \$24.57
 - D. \$26.18
 - E. \$29.90

70. You purchased 800 shares of stock for \$49.20 a share. The initial margin requirement is 65 percent and the maintenance margin is 35 percent. What is the lowest the stock price can go before you receive a margin call?

- A. \$9.27
- B. \$14.54
- C. \$17.22
- D. \$21.88
- E. \$26.49

71. Aaron purchased 200 shares of a technology stock for \$11.80 a share. The initial margin requirement on this stock is 85 percent and the maintenance margin is 60 percent. What is the lowest the stock price can go before he receives a margin call?

- A. \$4.43
- B. \$5.59
- C. \$6.02
- D. \$8.33
- E. \$10.03

72. You purchased 700 shares of stock for \$54.30 a share. The initial margin requirement is 75 percent and the maintenance margin is 35 percent. What is the maximum percentage decrease that can occur in the stock price before you receive a margin call?

- A. 35 percent
- B. 38 percent
- C. 48 percent
- D. 57 percent
- E. 62 percent

73. Nelson purchased 1,300 shares of stock for \$12.75 a share. The initial margin requirement is 70 percent and the maintenance margin is 40 percent. What is the maximum percent by which the stock price can decline before he receives a margin call?

- A. 30 percent
- B. 45 percent
- C. 50 percent
- D. 65 percent
- E. 70 percent

74. You purchase 500 shares of stock on margin at a cost per share of \$22. The initial margin requirement is 60 percent. The effective interest rate on the margin loan is 6.4 percent. How much interest will you pay if you repay the loan in four months?

- A. \$68.77
- B. \$91.93
- C. \$102.16
- D. \$112.38
- E. \$117.04

75. Ina purchased 600 shares of Detroit Motors stock at a price of \$56 a share. The initial margin requirement is 65 percent and the maintenance margin is 30 percent. The effective interest rate on the margin loan is 5.85 percent. How much margin interest will she pay if she repays the loan in seven months?

- A. \$387.29
- B. \$396.55
- C. \$401.31
- D. \$580.42
- E. \$687.96

76. Today, you are purchasing 100 shares of stock on margin. The purchase price per share is \$35. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. The call money rate is 4.5 percent and you are charged 1.6 percent over that rate. What will your rate of return be if you sell your shares one year from now for \$37 a share? Ignore dividends.

- A. 5.55 percent
- B. 6.42 percent
- C. 7.18 percent
- D. 7.49 percent
- E. 8.03 percent

77. Five months ago, you purchased 300 shares of stock on margin. The initial margin requirement on your account is 60 percent and the maintenance margin is 30 percent. The call money rate is 4.2 percent and you pay 1.75 percent above that rate. The purchase price was \$18 a share. Today, you sold these shares for \$21 each. What is your annualized rate of return?

- A. 26.15 percent
- B. 28.18 percent
- C. 62.77 percent
- D. 68.87 percent
- E. 74.64 percent

78. Seven months ago, Freda purchased 400 shares of stock on margin at a price per share of \$36. The initial margin requirement on her account is 70 percent and the maintenance margin is 40 percent. The call money rate is 4.4 percent and she pays 2 percent above that rate. Today, she sold these shares for \$37.50 each. What is her annualized rate of return?

- A. 7.50 percent
- B. 7.61 percent
- C. 14.37 percent
- D. 16.90 percent
- E. 17.42 percent

79. Two months ago, Trevor purchased 500 shares of stock at a cost per share of \$74.20. The purchase was made on margin with an initial margin requirement of 65 percent. Trevor pays 1.6 percent over the call money rate of 4.7 percent. What will his total dollar return be on this investment if he sells his shares today at a price per share of \$73.40? Ignore dividends.

- A. -\$548.60
- B. -\$539.67
- C. -\$532.90
- D. -\$574.87
- E. -\$591.19

80. Robin sold 800 shares of a non-dividend paying stock this morning for a total of \$29,440. She had purchased these shares on margin nine months ago at a cost per share of \$35. The initial margin requirement on this stock is 60 percent and the maintenance margin is 30 percent. Robin pays 1.2 percent over the call money rate of 4.9 percent. What is her total dollar return on this investment?

- A. \$816.48
- B. \$897.29
- C. \$931.41
- D. \$1,164.93
- E. \$1,440.00

81. You recently purchased 100 shares of stock at a cost per share of \$23.80. The initial margin requirement on this stock is 80 percent and the maintenance margin is 50 percent. The stock is currently valued at \$16.90 a share. What is your current margin position? Ignore margin interest.

- A. 71.01 percent
- B. 71.83 percent
- C. 73.47 percent
- D. 73.69 percent
- E. 74.80 percent

82. You recently purchased 1,300 shares of stock at a cost per share of \$54.10. The initial margin requirement on this stock is 60 percent and the maintenance margin is 30 percent. The stock is currently valued at \$42.30 a share. What is your current margin position? Ignore margin interest.

- A. 46.91 percent
- B. 48.84 percent
- C. 63.05 percent
- D. 65.28 percent
- E. 78.18 percent

83. Yvette recently purchased 700 shares of stock at a cost per share of \$43.50. The initial margin requirement on this stock is 75 percent and the maintenance margin is 40 percent. The stock is currently valued at \$44.10 a share. What is her current margin position? Ignore margin interest.

- A. 74.29 percent
- B. 74.78 percent
- C. 75.34 percent
- D. 76.03 percent
- E. 76.14 percent

84. You short sold 600 shares of a stock at \$48 a share. The initial margin requirement is 60 percent and the maintenance margin is 30 percent. What is the amount of your total liability for this transaction as initially shown on your account balance sheet?

- A. \$8,640
- B. \$17,280
- C. \$22,210
- D. \$28,800
- E. \$37,440

85. Elizabeth short sold 600 shares of stock at \$62 a share. One month later, she covered the short at a price of \$59. What was her total dollar return on this investment?

- A. -\$1,800
- B. -\$1,080
- C. -\$920
- D. \$1,080
- E. \$1,800

86. Today, you short sold 1,100 shares of Jasper Industrial stock at \$48 a share. The initial margin is 60 percent and the maintenance margin is 30 percent. Which one of the following is correct concerning your account balance sheet for this transaction?

- A. You have an asset of \$31,680 from the sale proceeds.
- B. You have a liability from the short position of \$21,120.
- C. Your account equity is \$21,120.
- D. Your initial margin deposit is \$15,840.
- E. Your total assets are \$84,480.

87. Matt short sold 900 shares of stock at \$11.50 a share. The initial margin is 80 percent and the maintenance margin is 50 percent. The stock is currently selling for \$5.80 a share. What is Matt's account equity at this time? Ignore margin interest.

- A. \$2,070
- B. \$3,590
- C. \$10,350
- D. \$11,950
- E. \$13,410

88. You short sold 500 shares of Jasper stock at \$41 a share at an initial margin of 60 percent. What is the highest the stock price can go before you receive a margin call if the maintenance margin is 40 percent?

A. \$46.86

B. \$47.08

C. \$55.50

D. \$56.90

E. \$57.40

89. Jennifer believes that Northern Wine stock is going to decline in value so she is short selling 800 shares at \$46 a share. Her initial margin requirement is 70 percent and the maintenance margin is 30 percent. What is the highest the stock price can go before she receives a margin call?

A. \$58.97

B. \$60.15

C. \$62.08

D. \$63.75

E. \$65.71

90. Matt short sold 500 shares of Tall Pines stock at \$19 a share at an initial margin of 65 percent. The maintenance margin is 35 percent. What is the highest the stock price can go before he receives a margin call?

- A. \$20.12
- B. \$21.48
- C. \$23.22
- D. \$24.07
- E. \$25.16

91. The short interest on Blue Water Cruisers stock was 218,900 when the market opened this morning. During the day, 107,400 shares were covered and 121,600 shares were sold short. What was the short interest on this stock at the end of the trading day?

- A. 204,700 shares
- B. 221,100 shares
- C. 233,100 shares
- D. 408,100 shares
- E. 447,900 shares

92. You just sold 1,200 shares of stock short at a price per share of \$13.50. The initial margin requirement is 60 percent and the maintenance margin is 30 percent. What is your initial equity position?

- A. \$6,480
- B. \$7,520
- C. \$9,720
- D. \$10,520
- E. \$16,200

93. Last week, you sold 300 shares of Hi-Lo stock for \$13,200. The sale was a short sale with an initial margin requirement of 70 percent. The maintenance margin is 40 percent. Some positive news concerning the company was released last night and the stock price jumped this morning to \$51 a share. What is your current margin position in this stock?

- A. 71.33 percent
- B. 66.67 percent
- C. 48.33 percent
- D. 46.67 percent
- E. 51.33 percent

94. Recently, you sold 1,000 shares of stock for \$21,400. The sale was a short sale with an initial margin requirement of 60 percent. The maintenance margin is 30 percent. The stock is currently trading at \$27.50 a share. What is your current margin position in this stock?

- A. 24.51 percent
- B. 28.11 percent
- C. 32.09 percent
- D. 43.98 percent
- E. 46.69 percent

95. Recently, you sold 300 shares of stock for \$14.60 a share. The sale was a short sale with an initial margin requirement of 70 percent. The maintenance margin is 35 percent. The stock is currently trading at \$15.10 a share. What is your current short position in this stock?

- A. \$2,916
- B. \$4,530
- C. \$7,446
- D. \$10,362
- E. \$11,976

96. You just sold short 700 shares of Highway Construction stock for \$31 a share. The initial margin requirement is 70 percent and the maintenance margin is 35 percent. Construct a balance sheet depicting this transaction.

97. Last week, you sold short 400 shares of stock for \$31 a share. The initial margin requirement is 65 percent and the maintenance margin is 30 percent. Today, that stock is selling for \$33 a share. Construct a balance sheet for this short sale reflecting today's values.

98. You are having a discussion with Kate when she mentions that she just initiated a short position on ABC stock. Given that statement, what do you know about Kate's future outlook for ABC stock?

99. Why might a brokerage firm set a 30 percent maintenance margin requirement on one stock but a 40 percent requirement on another stock?

100. This morning, you shorted 100 shares of Better Foods stock at a price per share of \$46. What is the maximum potential profit and maximum potential loss on this position? Explain how you compute these values. Ignore trading costs, taxes, and dividends.

2 Key

1. A brokerage account in which purchases can be made using credit is referred to as which type of account?
- A. clearing
 - B. funds available
 - C. cash
 - D. call
 - E. margin

Jordan - Chapter 002 #1

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-1

SECTION: 2.2

TOPIC: MARGIN ACCOUNT

2. The call money rate is the:
- A. rate investors' pay on margin loans.
 - B. percentage of a security's value that must be maintained as margin.
 - C. interest rate that must be paid on any margin shortfall.
 - D. rate a broker pays to a bank for funds loaned to customer margin accounts.
 - E. minimum percentage rate of equity that must be maintained in a margin account.

Jordan - Chapter 002 #2

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-1

SECTION: 2.2

TOPIC: CALL MONEY RATE

3. Kate just purchased \$7,000 worth of stock. She paid \$5,000 in cash and borrowed \$2,000. In this example, the term margin refers to:

- A. the total amount of the purchase.
- B.** the percentage of the purchase that was paid in cash.
- C. the percentage of the purchase paid with borrowed funds.
- D. any future increase in the value of the stock.
- E. any future decrease in the value of the stock.

Jordan - Chapter 002 #3

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN

4. Which one of the following best describes the term "initial margin"?

- A. amount of money that must be deposited to open a margin account with a broker
- B.** amount of cash that must be paid to purchase a security on margin
- C. amount of cash that must be paid when a broker issues a margin call
- D. amount of money borrowed when a security is purchased
- E. total loan amount offered to a customer by a brokerage firm to cover future purchases

Jordan - Chapter 002 #4

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: INITIAL MARGIN

5. The minimum equity that must be maintained at all times in a margin account is called the:

- A. initial margin.
- B. initial equity position.
- C. maintenance margin.
- D. call requirement.
- E. margin call.

Jordan - Chapter 002 #5

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MAINTENANCE MARGIN

6. When your equity position in a security is less than the required amount, your brokerage firm will issue a:

- A. margin call.
- B. margin certificate.
- C. cash certificate.
- D. limit order.
- E. leverage call.

Jordan - Chapter 002 #6

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN CALL

7. Stuart purchased 300 shares of Microsoft stock which he has pledged to his broker as collateral for the loan in his margin account. This process of pledging securities is called:

- A. margin calling.
- B. hypothecation.**
- C. leveraging.
- D. maintaining the margin.
- E. street securitization.

Jordan - Chapter 002 #7

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: HYPOTHECATION

8. Staci owns 1,000 shares of stock in a margin account. Those shares are most likely held in:

- A. transit.
- B. her registered name.
- C. street name.**
- D. a wrap account.
- E. a discretionary account.

Jordan - Chapter 002 #8

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: STREET NAME

9. This morning, Josh sold 800 shares of stock that he did not own. This sale is referred to as a:
- A. margin sale.
 - B. long position.
 - C. wrap trade.
 - D. hypothecated sale.
 - E. short sale.

Jordan - Chapter 002 #9

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT SALE

10. The amount of common stock held in short positions is referred to as the short:
- A. margin.
 - B. shares.
 - C. proceeds.
 - D. sale.
 - E. interest.

Jordan - Chapter 002 #10

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT INTEREST

11. Market timing is the:

- A. placing of an order within the last half-hour of trading for a day.
- B. period of time between the placement of a short sale and the covering of that sale.
- C. buying and selling of securities in anticipation of the overall direction of the market.
- D. staggering of either buy or sell orders to mask the total size of a large transaction.
- E. placing of trades within the last half-hour prior to the commencement of daily trading.

Jordan - Chapter 002 #11

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: MARKET TIMING

12. Asset allocation is the:

- A. selection of specific securities within a particular class or industry.
- B. division of a purchase price between a cash payment and a margin loan.
- C. division of a portfolio into short and long positions.
- D. distribution of investment funds among various broad asset classes.
- E. dividing of assets into those that are hypothecated and those that are not.

Jordan - Chapter 002 #12

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: ASSET ALLOCATION

13. Jesse is researching chemical companies in an effort to determine which company's stock he should purchase. This process is known as:

- A. market timing.
- B. purchase shorting.
- C. marketing research.
- D. asset allocation.
- E. security selection.

Jordan - Chapter 002 #13

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: SECURITY SELECTION

14. A company that owns income-producing real estate such as an apartment complex or a retail shopping center is called a(n):

- A. REIT.
- B. SIPC.
- C. REEF.
- D. EAR.
- E. SPIC.

Jordan - Chapter 002 #14

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.5

TOPIC: REIT

15. Ted recently inherited a large sum of money that he wants to invest in the stock market. Since he has no investment experience, he has decided that he would like to work with a professional who can explain the market to him and also manage his funds for him. Ted most likely needs the services offered by a(n):

- A. deep-discount broker.
- B. discount broker.
- C. full-service broker.
- D. online broker.
- E. cyberbroker.

Jordan - Chapter 002 #15

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-1

SECTION: 2.1

TOPIC: BROKERAGE FIRMS

16. Which one of the following statements is correct?

- A. Most brokerage agreements require disputes be settled in a court of law.
- B. Arbitration is a formal legal process for settling disputes related to brokerage accounts.
- C. Churning is the preferred method of providing deep-discount brokerage services.
- D. Discount brokers only provide order execution services.
- E. Full service brokers frequently provide financial planning services to clients.

Jordan - Chapter 002 #16

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-1

SECTION: 2.1

TOPIC: BROKER-CUSTOMER RELATIONS

17. Martin has an investment account with William, who is a broker with City Brokerage. Martin believes that William has mishandled his account by churning it. If he files a complaint against William seeking compensation, the case will most likely be decided by:

A. the office manager of City Brokerage.

B. a civil suit judge.

C. a jury.

D. an arbitration panel.

E. the SEC Hearing Board.

Jordan - Chapter 002 #17

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-1

SECTION: 2.1

TOPIC: ARBITRATION

18. You currently have \$5,000 in cash in your brokerage account. You decide to spend \$8,000 to purchase shares of stock and borrow \$3,000 from your broker to do so. Which type of brokerage account do you have?

A. cash

B. wrap

C. margin

D. short

E. asset allocation

Jordan - Chapter 002 #18

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-1

SECTION: 2.2

TOPIC: MARGIN ACCOUNT

19. Which one of the following statements is correct?

- A. The call money rate is the rate of interest brokerage firms charge on margin loans.
- B. The spread is the fee a deep-discount broker charges to execute a trade.
- C. The percentage of a purchase paid for with borrowed funds is referred to as the margin.
- D. A margin loan is treated as an asset on an account balance sheet.
- E. Margin is equal to account equity divided by the value of the securities owned.

Jordan - Chapter 002 #19

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-1

SECTION: 2.2

TOPIC: MARGIN

20. Staci just used \$6,000 of cash plus a \$3,000 margin loan to purchase \$9,000 worth of stock. This is the only transaction in her brokerage account. According to her account balance sheet, she now has account equity of:

- A. \$3,000.
- B. \$6,000.
- C. \$9,000.
- D. \$12,000.
- E. \$15,000.

Jordan - Chapter 002 #20

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: ACCOUNT BALANCE SHEET

21. Amy just purchased \$12,000 of stock. She paid \$9,000 in cash and borrowed the remaining \$3,000 needed to pay for this purchase. If you constructed a balance sheet reflecting this transaction, the total assets would be:

- A. \$3,000.
- B. \$9,000.
- C. \$12,000.
- D. \$15,000.
- E. \$21,000.

Jordan - Chapter 002 #21

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: ACCOUNT BALANCE SHEET

22. Anita wants to buy \$10,000 of securities in her margin account. Her advisor has informed her that she must pay a minimum of \$7,000 in cash and maintain a minimum equity position of 30 percent. The initial margin requirement is _____ percent and the maintenance margin is _____ percent.

- A. 30; 30
- B. 30; 70
- C. 70; 30
- D. 70; 50
- E. 70; 70

Jordan - Chapter 002 #22

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN ACCOUNT

23. The absolute minimum initial margin requirement is set by the:

- A. individual investor.
- B. brokerage firm.
- C. Federal Reserve.
- D. Security Investors Protection Corporation.
- E. Securities and Exchange Commission.

Jordan - Chapter 002 #23

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: INITIAL MARGIN

24. You open a margin account with a local broker and purchase shares of stock. The house maintenance margin requirement for your account is set by:

- A. your broker.
- B. the stock exchange.
- C. the SEC.
- D. the SIPC.
- E. the Federal Reserve.

Jordan - Chapter 002 #24

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: HOUSE MARGIN

25. If you opt to purchase shares of stock on margin rather than with cash, you will:
- A. decrease your maximum potential rate of return.
 - B. increase your maximum potential rate of return.
 - C. guarantee yourself a profit.
 - D. eliminate any potential profit.
 - E. have equal rates of return regardless of how the purchase is made.

Jordan - Chapter 002 #25

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: EFFECTS OF MARGIN

26. Which one of the following formulas is correct for determining the critical price on a long stock position?

- A. $P^* = (\text{Amount borrowed} / \text{Number of shares}) / (1 - \text{Maintenance margin})$
- B. $P^* = (\text{Amount borrowed} / \text{Number of shares}) / (1 + \text{Maintenance margin})$
- C. $P^* = (\text{Amount borrowed} / \text{Number of shares}) / (\text{Maintenance margin})$
- D. $P^* = (\text{Amount borrowed} / \text{Number of shares}) / (\text{Initial margin} - \text{Maintenance margin})$
- E. $P^* = (\text{Amount borrowed} / \text{Number of shares}) / (1 + \text{Initial margin})$

Jordan - Chapter 002 #26

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN CALL

27. What is the purpose of a margin call?

- A. to inform you that your margin loan is due and payable
- B.** to demand funds to increase your margin position
- C. to let you know the amount of funds that are now available for you to borrow
- D. to advise you that the interest rate on your loan has changed
- E. to remind you of the upcoming monthly payment due on your margin loan

Jordan - Chapter 002 #27

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN CALL

28. If you ignore a margin call, your broker:

- A. will seize all the assets in your account.
- B. will close your account.
- C. may place a short sale on your behalf to cover the amount of the call.
- D.** may sell some of your securities to repay the margin loan.
- E. will increase both your margin loan and the rate of interest on that loan.

Jordan - Chapter 002 #28

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN CALL

29. Lauren Mitchell has a margin account with a local brokerage firm, RL Brokers. She recently purchased 200 shares of Abbot Industries common stock that trades on the New York Stock Exchange (NYSE). These shares are held in street name and are registered under the name of:

- A. Lauren Mitchell.
- B. RL Brokers.**
- C. Abbot Industries.
- D. the New York Stock Exchange.
- E. the Securities and Exchange Commission.

Jordan - Chapter 002 #29

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: STREET NAME

30. Which one of the following is generally true concerning securities held in street name?

- A. The securities are registered under your mailing address rather than your name.
- B. There is a greater likelihood the security may be stolen.
- C. All dividend checks are mailed to your street address.
- D. The annual stock report is mailed directly to your street address.
- E. The brokerage firm is the owner of record.**

Jordan - Chapter 002 #30

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: STREET NAME

31. Sarah has a brokerage account with Jeff, who is a money manager with Downtown Brokers. Sarah pays an all-inclusive annual fee to the firm and Jeff manages her funds. She pays no trading costs or commissions. Which one of the following best describes this type of account?

- A. wrap
- B. cash
- C. margin
- D. mutual
- E. advisory

Jordan - Chapter 002 #31

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-1

SECTION: 2.2

TOPIC: WRAP ACCOUNT

32. A discretionary account:

- A. authorizes a broker to trade securities on your behalf.
- B. charges an annual fee to cover all trading and management services.
- C. is the term applied to brokerage accounts with check-writing and credit card services.
- D. is the same as a wrap account.
- E. is the account used to pledge securities as collateral for a margin loan.

Jordan - Chapter 002 #32

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-1

SECTION: 2.2

TOPIC: DISCRETIONARY ACCOUNT

33. An investor with a long position in a security will make money:

- A. if the price of the security increases.
- B. if the price of the security declines.
- C. if the price of the security remains stable.
- D. only if the security has been purchased on margin.
- E. only by shorting the security.

Jordan - Chapter 002 #33

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: LONG POSITION

34. Which one of the following describes a short position?

- A. purchasing a security on margin
- B. selling a security that you originally purchased on margin
- C. loaning a security to your broker to cover a margin call
- D. having less equity than required in your margin account
- E. selling a security that you do not own

Jordan - Chapter 002 #34

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT POSITION

35. On August 8 of this year, Brent sold 500 shares of ADO stock for \$24 a share. On September 6 of this year, he purchased 500 shares of ADO stock to cover his position. The transaction on August 8:

- A. was a short sale.
- B. was a margin trade.
- C. was a wrap transaction.
- D. created a long transaction.
- E. was a pooling transaction.

Jordan - Chapter 002 #35

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT SALE

36. A short sale:

- A. creates a long position in a stock.
- B. involves the borrowing of securities.
- C. is the purchase of less than 100 shares of a stock.
- D. is a bullish outlook towards a security.
- E. is the resale of a security within four hours of purchase.

Jordan - Chapter 002 #36

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT SALE

37. If you benefit when a security decreases in value, you have a _____ position in the security.

- A. long
- B. margined
- C. short
- D. covered
- E. wrapped

Jordan - Chapter 002 #37

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT POSITION

38. In the critical price formula for a short sale of an equity security, the variable "short proceeds" refers to the:

- A. amount of the initial cash deposit.
- B. amount of the margin loan.
- C. cash received from the sale of the stock.
- D. cash profit earned when the short is covered.
- E. cash needed to cover the margin loan interest.

Jordan - Chapter 002 #38

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT POSITION

39. The maximum loss you can incur on a short sale is:

- A. limited to your initial equity.
- B. limited to your initial margin.
- C. limited to the margin loan plus interest.
- D. zero.
- E. unlimited.

Jordan - Chapter 002 #39

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: LOSS ON SHORT SALE

40. What is the maximum loss you can incur if you have a long position on a stock in a cash account?

- A. the initial investment
- B. the initial margin
- C. the margin loan plus interest
- D. zero
- E. unlimited

Jordan - Chapter 002 #40

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: LOSS ON LONG POSITION

41. An investor who has a resource constraint:
- A. pays no income taxes.
 - B.** has insufficient funds to purchase a security.
 - C. has a relatively high marginal tax rate.
 - D. has only one source of income.
 - E. will only invest in socially acceptable securities.

Jordan - Chapter 002 #41

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: INVESTOR CONSTRAINTS

42. Anna is a day trader who constantly buys and sells only blue chip stocks. She has a(n) _____ asset allocation strategy and a(n) _____ security selection strategy.
- A. active; active
 - B. active; passive
 - C. active; neutral
 - D.** passive; active
 - E. passive; passive

Jordan - Chapter 002 #42

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: INVESTOR CONSTRAINTS

43. To be considered liquid, a security must:

- A. be held in a cash account.
- B. pay dividends.
- C. be able to be sold on short notice.
- D. be held for less than one year.
- E. be able to be sold quickly with little, if any, price concession.

Jordan - Chapter 002 #43

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: LIQUIDITY

44. Wythe is trying to decide whether he wants to purchase shares in General Motors, Ford, or Honda, all of which are auto manufacturers. Wythe is making a(n) _____ decision.

- A. security selection
- B. tax-advantaged
- C. risk aversion
- D. active strategy
- E. asset allocation

Jordan - Chapter 002 #44

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: SECURITY SELECTION

45. Brooke has decided to invest 55 percent of her money in large company stocks, 40 percent in small company stocks, and 5 percent in cash. This is a(n) _____ decision.

- A. market timing
- B. security selection
- C. tax-advantaged
- D. active strategy
- E.** asset allocation

Jordan - Chapter 002 #45

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: ASSET ALLOCATION

46. Kay plans to retire in two years and wishes to liquidate her account at that time. Kay has a _____ constraint.

- A. resource
- B.** horizon
- C. liquidity
- D. tax
- E. special circumstances

Jordan - Chapter 002 #46

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: HORIZON CONSTRAINT

47. The SIPC:

- A. guarantees investors against any loss related to an investment account held at a brokerage firm.
- B. guarantees cash balances held in brokerage accounts up to \$500,000.
- C. is an agency of the federal government.
- D. protects private brokerage firms from bankruptcy.
- E. protects investors from missing assets when a brokerage firm closes.

Jordan - Chapter 002 #47

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-1

SECTION: 2.1

TOPIC: SIPC

48. The determination of which individual stocks to purchase within a particular asset class is referred to as:

- A. security selection.
- B. asset allocation.
- C. security analysis.
- D. market timing.
- E. market selection.

Jordan - Chapter 002 #48

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: SECURITY SELECTION

49. An investor who follows a fully active strategy will:

- A. move money between asset classes as well as try to select the best performers in each class.
- B. move money between asset classes but will not be concerned about which individual securities are owned.
- C. focus on picking individual stocks only.
- D. maintain a relatively constant mix of asset classes while continually buying and selling individual securities.
- E. concentrate solely on asset allocation to maximize potential returns.

Jordan - Chapter 002 #49

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: FULLY ACTIVE STRATEGY

50. Which one of the following decisions falls under the category of asset allocation?

- A. purchasing Ford stock rather than General Motors stock
- B. determining that thirty percent of a portfolio should be invested in bonds
- C. adopting a passive investment strategy
- D. deciding to actively analyze individual securities
- E. deciding to use an online broker

Jordan - Chapter 002 #50

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-4

SECTION: 2.4

TOPIC: ASSET ALLOCATION

51. Taylor Industries stock is selling for \$32 a share. You would like to purchase as many shares of this stock as you can. Your margin account currently has available cash of \$6,200 and the initial margin requirement is 60 percent. What is the maximum number of shares you can buy?

- A. 193 shares
- B. 252 shares
- C. 322 shares
- D. 360 shares
- E. 408 shares

Maximum purchase = $\$6,200 / .6 = \$10,333.33$

Maximum number of shares $\$10,333.33 / \$32 = 322$ shares, rounded down to the last full share

Jordan - Chapter 002 #51
LEVEL OF DIFFICULTY: CORE
Learning Objective: 2-2
SECTION: 2.2
TOPIC: MARGIN PURCHASE

52. Todd has a margin account with \$17,400 in available cash. The initial margin is 70 percent and the maintenance margin is 30 percent. What is the maximum number of shares he can purchase if the price per share is \$44?

A. 395 shares

B. 564 shares

C. 698 shares

D. 744 shares

E. 842 shares

Maximum purchase = $\$17,400 / .7 = \$24,857.14$

Maximum number of shares = $\$24,857.14 / \$44 = 564$ shares, rounded down to the last full share

Jordan - Chapter 002 #52

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN PURCHASE

53. Theresa has a margin account with a 60 percent initial margin requirement and a 35 percent maintenance margin. What is the maximum dollar amount of stock she can purchase if her cash balance in the account is \$31,900?

A. \$19,140.00

B. \$31,900.00

C. \$44,093.33

D. \$53,166.67

E. \$91,142.86

Maximum purchase = $\$31,900 / .60 = \$53,166.67$

Jordan - Chapter 002 #53

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN PURCHASE

54. You recently purchased 900 shares of Western Timber stock for \$38 a share. Your broker required a cash payment of \$25,650, plus trading costs, for this purchase. What was the initial margin requirement?

- A. 60 percent
- B. 65 percent
- C. 70 percent
- D.** 75 percent
- E. 80 percent

Purchase cost = $900 \times \$38 = \$34,200$

Initial margin percentage = $\$25,650 / \$34,200 = 75$ percent

Jordan - Chapter 002 #54

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: INITIAL MARGIN

55. Donna recently purchased 500 shares of Deltona stock for \$28.60 a share. Her broker required a cash payment of \$12,155, plus trading costs, for the purchase. What is the initial margin requirement on this particular stock?

- A. 70 percent
- B. 75 percent
- C. 85 percent
- D. 90 percent
- E. 100 percent

Purchase cost = $500 \times \$28.60 = \$14,300$

Initial margin percentage = $\$12,155 / \$14,300 = 85$ percent

Jordan - Chapter 002 #55

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: INITIAL MARGIN

56. Suzette recently purchased 300 shares of Nu Electronics stock for \$4.40 a share. Her broker required a cash payment of \$1,320, plus trading costs, for the purchase. What is the initial margin requirement on this stock?

- A. 70 percent
- B. 75 percent
- C. 80 percent
- D. 90 percent
- E. 100 percent

Purchase cost = $300 \times \$4.40 = \$1,320$

Initial margin percentage = $\$1,320 / \$1,320 = 100$ percent

Jordan - Chapter 002 #56

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: INITIAL MARGIN

57. Stephen is purchasing 800 shares of KPT, Inc., stock at a price per share of \$18.70. What is the minimum amount the Federal Reserve will require Stephen to pay in cash for this purchase?

- A. \$4,488
- B. \$7,480**
- C. \$10,500
- D. \$11,968
- E. \$14,960

Minimum cash required = $.50 \times 800 \times \$18.70 = \$7,480$

Jordan - Chapter 002 #57

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: INITIAL MARGIN

58. Alfonso purchased 600 shares of Crosswinds, Inc., stock on 60% margin when the stock was selling for \$37 a share. The stock is currently selling for \$32 a share. What is his current equity position?

- A. \$7,680
- B. \$8,880
- C. \$9,600
- D. \$10,320
- E. \$11,560

$$\text{Margin loan} = 600 \times \$37 \times (1 - .60) = \$8,880$$

$$\text{Current equity} = (600 \times \$32) - \$8,880 = \$10,320$$

Jordan - Chapter 002 #58

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: EQUITY POSITION

59. You purchased 1,200 shares of stock at \$52 a share. The stock is currently selling for \$55 a share. The initial margin was 70 percent and the maintenance margin is 30 percent. What is your current margin position?

- A. 28.36 percent
- B. 25.00 percent
- C. 75.00 percent
- D. 63.59 percent
- E. 71.64 percent

$$\text{Margin loan} = 1,200 \times \$52 \times (1 - .70) = \$18,720$$

$$\text{Current equity} = (1,200 \times \$55) - \$18,720 = \$47,280$$

$$\text{Margin position} = \$47,280 / (1,200 \times \$55) = 71.64 \text{ percent}$$

Jordan - Chapter 002 #59

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN POSITION

60. You own 700 shares of a stock that you purchased on margin at a price per share of \$20.12. The stock is currently valued at \$23 a share. Your broker advised you today that your minimum equity position for this purchase is \$5,635 as of today. What is the maintenance margin percentage?

- A. 25 percent
- B. 30 percent
- C. 35 percent
- D. 40 percent
- E. 50 percent

Maintenance margin percentage = $\$5,635 / (700 \times \$23) = 35$ percent

Jordan - Chapter 002 #60
LEVEL OF DIFFICULTY: CORE
Learning Objective: 2-2
SECTION: 2.2
TOPIC: MARGIN POSITION

61. Sun Lee purchased 1,100 shares of Franklin Metals stock for \$16.80 a share. The stock was purchased with an initial margin of 65 percent. The maintenance margin is 30 percent. The stock is currently selling for \$18.10 a share. What is the minimum dollar amount of equity that he must have in this stock today to avoid a margin call?

A. \$5,544

B. \$5,621

C. \$5,700

D. \$5,811

E. \$5,973

Minimum equity = $1,100 \times \$18.10 \times .30 = \$5,973$

Jordan - Chapter 002 #61

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MAINTENANCE MARGIN

62. Rosita purchased 300 shares of a stock for \$37 a share. Today, the stock is selling for \$41 a share. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. Rosita had to pay _____ in cash to purchase the stock and must have at least _____ in equity today.

A. \$3,690; \$3,330

B. \$3,690; \$3,690

C. \$7,770; \$3,330

D. \$7,770; \$3,690

E. \$8,610; \$3,690

Initial cash requirement = $300 \times \$37 \times .70 = \$7,770$

Current equity requirement = $300 \times \$41 \times .30 = \$3,690$

Jordan - Chapter 002 #62

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MAINTENANCE MARGIN

63. Allan purchased 600 shares of stock on margin for \$41 a share and sold the shares five months later for \$43 a share. The initial margin requirement was 65 percent and the maintenance margin was 30 percent. The interest rate on the margin loan was 10 percent. He received no dividend income. What was his holding period return?

- A. 1.05 percent
- B. 5.32 percent**
- C. 4.88 percent
- D. 7.50 percent
- E. 7.82 percent

$$\text{Initial investment} = 600 \times \$41 \times .65 = \$15,990$$

$$\text{Loan repayment} = [600 \times \$41 \times (1 - .65)] \times (1.10)^{5/12} = \$8,958.81$$

$$\text{HPR} = [(600 \times \$43) - \$8,958.81 - \$15,990] / \$15,990 = 5.32 \text{ percent}$$

Jordan - Chapter 002 #63

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: HPR WITH MARGIN INTEREST

64. Tony purchased 100 shares of T-Rex stock for \$43 a share. On the same day, Sam also purchased 100 shares of T-Rex stock for \$43 a share. Tony paid cash for his purchase while Sam used margin. The initial margin requirement on this stock is 60 percent while the maintenance margin is 40 percent. Both Tony and Sam sold their shares after eight months at a price of \$40 a share. The stock pays no dividends. Tony had a holding period percentage return of _____ percent as compared to Sam's _____ percent return. Ignore margin interest and trading costs.

- A. -4.19; -6.98
- B. -4.19; -11.63
- C. -6.98; -4.19
- D. -6.98; -11.63
- E. -11.63; -7.56

Tony's HPR without margin = $[100 \times (\$40 - \$43)] / (100 \times \$43) = -6.98$ percent

Sam's HPR with margin = $[100 \times (\$40 - \$43)] / (100 \times \$43 \times .60) = -11.63$ percent

Jordan - Chapter 002 #64

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN AND LEVERAGE

65. Stacy purchased 500 shares of stock for \$48 a share. She sold those shares six months later for \$43 a share. The initial margin requirement is 80 percent and the maintenance margin is 40 percent. Ignore margin interest and trading costs. If she purchased the shares for cash her holding period return would be _____ percent as compared to _____ percent if she had used margin.

- A. -10.42; -8.34
- B. -10.42; -13.02**
- C. -11.63; -9.30
- D. -11.63; -14.54
- E. -12.27; -9.82

HPR without margin = $(\$43 - \$48) / \$48 = -10.42$ percent

HPR with margin = $(\$43 - \$48) / (\$48 \times .80) = -13.02$ percent

Jordan - Chapter 002 #65

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN AND LEVERAGE

66. A stock was purchased for \$51 a share and sold eleven months later for \$54 a share. If the shares were purchased totally with cash the holding period return would be _____ percent as compared to _____ percent if the purchase was made using 70 percent margin. Ignore trading costs and margin interest.

A. 5.56; 3.89

B. 5.56; 7.94

C. 5.88; 4.12

D. 5.88; 6.69

E. 5.88; 8.40

HPR without margin = $(\$54 - \$51) / \$51 = 5.88$ percent

HPR with margin = $(\$54 - \$51) / (\$51 \times .70) = 8.40$ percent

Jordan - Chapter 002 #66

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN AND LEVERAGE

67. You purchased a stock for \$19.60 a share using 70 percent margin. You sold the stock seven months later for \$20.80 a share. You did not receive any dividend income. What was your holding period percentage return on this investment? Ignore trading costs and margin interest.

A. 5.77 percent

B. 6.12 percent

C. 8.24 percent

D. 8.75 percent

E. 9.13 percent

$$\text{HPR} = (\$20.80 - \$19.60) / (\$19.60 \times .70) = 8.75 \text{ percent}$$

Jordan - Chapter 002 #67

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN RETURN

68. Rudolfo purchased 900 shares of stock for \$62.20 a share and sold them ten months later for \$64.60 a share. The initial margin requirement on this stock is 75 percent and the maintenance margin is 40 percent. Ignoring dividends and costs, what is his holding period return?

- A. 3.72 percent
- B. 3.86 percent
- C. 4.54 percent
- D. 4.95 percent
- E. 5.14 percent

$$\text{HPR} = (\$64.60 - \$62.20) / (\$62.20 \times .75) = 5.14 \text{ percent}$$

Jordan - Chapter 002 #68
LEVEL OF DIFFICULTY: CORE
Learning Objective: 2-2
SECTION: 2.2
TOPIC: MARGIN RETURN

69. Marti purchased 100 shares of Better Foods stock on margin at a price of \$43 a share. The initial margin requirement is 60 percent and the maintenance margin is 30 percent. What is the lowest the stock price can go before Marti receives a margin call?

A. \$17.20

B. \$22.36

C. \$24.57

D. \$26.18

E. \$29.90

$$P^* = \{[100 \times \$43 \times (1 - .60)] / 100\} / (1 - .30) = \$24.57$$

Jordan - Chapter 002 #69

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN CALL

70. You purchased 800 shares of stock for \$49.20 a share. The initial margin requirement is 65 percent and the maintenance margin is 35 percent. What is the lowest the stock price can go before you receive a margin call?

- A. \$9.27
- B. \$14.54
- C. \$17.22
- D. \$21.88
- E. \$26.49

$$P^* = \{[800 \times \$49.20 \times (1 - .65)] / 800\} / (1 - .35) = \$26.49$$

Jordan - Chapter 002 #70

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN CALL

71. Aaron purchased 200 shares of a technology stock for \$11.80 a share. The initial margin requirement on this stock is 85 percent and the maintenance margin is 60 percent. What is the lowest the stock price can go before he receives a margin call?

A. \$4.43

B. \$5.59

C. \$6.02

D. \$8.33

E. \$10.03

$$P^* = \{[200 \times \$11.80 \times (1 - .85)] / 200\} / (1 - .60) = \$4.43$$

Jordan - Chapter 002 #71

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN CALL

72. You purchased 700 shares of stock for \$54.30 a share. The initial margin requirement is 75 percent and the maintenance margin is 35 percent. What is the maximum percentage decrease that can occur in the stock price before you receive a margin call?

- A. 35 percent
- B. 38 percent
- C. 48 percent
- D. 57 percent
- E. 62 percent

$$P^* = \{[700 \times \$54.30 \times (1 - .75)] / 700\} / (1 - .35) = \$20.88462$$

$$\text{Maximum percentage decline} = 1 - (\$20.88462 / \$54.30) = 62 \text{ percent}$$

Jordan - Chapter 002 #72

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN CALL

73. Nelson purchased 1,300 shares of stock for \$12.75 a share. The initial margin requirement is 70 percent and the maintenance margin is 40 percent. What is the maximum percent by which the stock price can decline before he receives a margin call?

- A. 30 percent
- B. 45 percent
- C. 50 percent
- D. 65 percent
- E. 70 percent

$$P^* = \{[1,300 \times \$12.75 \times (1 - .70)] / 1,300\} / (1 - .40) = \$6.375$$

$$\text{Maximum percentage decline} = 1 - (\$6.375 / \$12.75) = 50 \text{ percent}$$

Jordan - Chapter 002 #73

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN CALL

74. You purchase 500 shares of stock on margin at a cost per share of \$22. The initial margin requirement is 60 percent. The effective interest rate on the margin loan is 6.4 percent. How much interest will you pay if you repay the loan in four months?

- A. \$68.77
- B. \$91.93**
- C. \$102.16
- D. \$112.38
- E. \$117.04

$$\text{Margin interest} = [(1 + .064)^{4/12} - 1] \times [500 \times \$22 \times (1 - .60)] = \$91.93$$

Jordan - Chapter 002 #74

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN INTEREST

75. Ina purchased 600 shares of Detroit Motors stock at a price of \$56 a share. The initial margin requirement is 65 percent and the maintenance margin is 30 percent. The effective interest rate on the margin loan is 5.85 percent. How much margin interest will she pay if she repays the loan in seven months?

A. \$387.29

B. \$396.55

C. \$401.31

D. \$580.42

E. \$687.96

$$\text{Margin interest} = [(1 + .0585)^{7/12} - 1] \times [600 \times \$56 \times (1 - .65)] = \$396.55$$

Jordan - Chapter 002 #75

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN INTEREST

76. Today, you are purchasing 100 shares of stock on margin. The purchase price per share is \$35. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. The call money rate is 4.5 percent and you are charged 1.6 percent over that rate. What will your rate of return be if you sell your shares one year from now for \$37 a share? Ignore dividends.

- A. 5.55 percent
- B. 6.42 percent
- C. 7.18 percent
- D. 7.49 percent
- E. 8.03 percent

$$\text{Initial investment} = (100 \times \$35 \times .70) = \$2,450$$

$$\text{Loan repayment} = [100 \times \$35 \times (1 - .70)] \times [1 + (.045 + .016)]^1 = \$1,114.05$$

$$\text{Rate of return} = [(100 \times \$37) - \$1,114.05 - \$2,450] / \$2,450 = 5.55 \text{ percent}$$

Jordan - Chapter 002 #76

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: HPR WITH MARGIN INTEREST

77. Five months ago, you purchased 300 shares of stock on margin. The initial margin requirement on your account is 60 percent and the maintenance margin is 30 percent. The call money rate is 4.2 percent and you pay 1.75 percent above that rate. The purchase price was \$18 a share. Today, you sold these shares for \$21 each. What is your annualized rate of return?

- A. 26.15 percent
- B. 28.18 percent
- C. 62.77 percent
- D. 68.87 percent
- E. 74.64 percent

$$\text{Initial investment} = 300 \times \$18 \times .60 = \$3,240$$

$$\text{Loan repayment} = [300 \times \$18 \times (1 - .60)] \times [1 + (.042 + .0175)]^{5/12} = 2,212.65$$

$$\text{HPR} = [(300 \times \$21) - \$2,212.65 - \$3,240] / \$3,240 = .26153$$

$$\text{EAR} = (1 + .26153)^{12/5} - 1 = 74.64 \text{ percent}$$

Jordan - Chapter 002 #77

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: ANNUALIZED RETURN

78. Seven months ago, Freda purchased 400 shares of stock on margin at a price per share of \$36. The initial margin requirement on her account is 70 percent and the maintenance margin is 40 percent. The call money rate is 4.4 percent and she pays 2 percent above that rate. Today, she sold these shares for \$37.50 each. What is her annualized rate of return?

- A. 7.50 percent
- B. 7.61 percent**
- C. 14.37 percent
- D. 16.90 percent
- E. 17.42 percent

$$\text{Initial investment} = 400 \times \$36 \times .70 = \$10,080$$

$$\text{Loan repayment} = [400 \times \$36 \times (1 - .70)] \times [1 + (.044 + .02)]^{7/12} = \$4,479.19$$

$$\text{HPR} = [(400 \times \$37.50) - \$4,479.19 - \$10,080] / \$10,080 = .04373$$

$$\text{EAR} = (1 + .04373)^{12/7} - 1 = 7.61 \text{ percent}$$

Jordan - Chapter 002 #78

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: ANNUALIZED RETURN

79. Two months ago, Trevor purchased 500 shares of stock at a cost per share of \$74.20. The purchase was made on margin with an initial margin requirement of 65 percent. Trevor pays 1.6 percent over the call money rate of 4.7 percent. What will his total dollar return be on this investment if he sells his shares today at a price per share of \$73.40? Ignore dividends.

- A. -\$548.60
- B. -\$539.67
- C. -\$532.90
- D. -\$574.87
- E. -\$591.19

$$\text{Initial investment} = 500 \times \$74.20 \times .65 = \$24,115$$

$$\text{Loan repayment} = [500 \times \$74.20 \times (1 - .65)] \times [1 + (.016 + .047)]^{2/12} = \$13,117.90$$

$$\text{HPR} = [(500 \times \$73.40) - \$13,117.90 - \$24,115] = -\$532.90$$

Jordan - Chapter 002 #79

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: RETURN WITH MARGIN INTEREST

80. Robin sold 800 shares of a non-dividend paying stock this morning for a total of \$29,440. She had purchased these shares on margin nine months ago at a cost per share of \$35. The initial margin requirement on this stock is 60 percent and the maintenance margin is 30 percent. Robin pays 1.2 percent over the call money rate of 4.9 percent. What is her total dollar return on this investment?

- A. \$816.48
- B. \$897.29
- C. \$931.41
- D. \$1,164.93
- E. \$1,440.00

Initial investment = $800 \times \$35 \times .60 = \$16,800$

Loan repayment = $[800 \times \$35 \times (1 - .60)] \times [1 + (.012 + .049)]^{9/12} = \$11,708.59$

Holding period dollar return = $(\$29,440 - \$11,708.59 - \$16,800) = \931.41

Jordan - Chapter 002 #80

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: RETURN WITH MARGIN INTEREST

81. You recently purchased 100 shares of stock at a cost per share of \$23.80. The initial margin requirement on this stock is 80 percent and the maintenance margin is 50 percent. The stock is currently valued at \$16.90 a share. What is your current margin position? Ignore margin interest.

A. 71.01 percent

B. 71.83 percent

C. 73.47 percent

D. 73.69 percent

E. 74.80 percent

Margin loan = $100 \times \$23.80 \times (1 - .80) = \476

Current stock value = $100 \times \$16.90 = \$1,690$

Current equity = $\$1,690 - \$476 = \$1,214$

Current margin = $\$1,214 / \$1,690 = 71.83$ percent

Jordan - Chapter 002 #81

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN

82. You recently purchased 1,300 shares of stock at a cost per share of \$54.10. The initial margin requirement on this stock is 60 percent and the maintenance margin is 30 percent. The stock is currently valued at \$42.30 a share. What is your current margin position? Ignore margin interest.

- A. 46.91 percent
- B. 48.84 percent**
- C. 63.05 percent
- D. 65.28 percent
- E. 78.18 percent

$$\text{Margin loan} = 1,300 \times \$54.10 \times (1 - .60) = \$28,132$$

$$\text{Current stock value} = 1,300 \times \$42.30 = \$54,990$$

$$\text{Current equity} = \$54,990 - \$28,132 = \$26,858$$

$$\text{Current margin} = \$26,858 / \$54,990 = 48.84 \text{ percent}$$

Jordan - Chapter 002 #82

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN

83. Yvette recently purchased 700 shares of stock at a cost per share of \$43.50. The initial margin requirement on this stock is 75 percent and the maintenance margin is 40 percent. The stock is currently valued at \$44.10 a share. What is her current margin position? Ignore margin interest.

- A. 74.29 percent
- B. 74.78 percent
- C. 75.34 percent
- D. 76.03 percent
- E. 76.14 percent

$$\text{Margin loan} = 700 \times \$43.50 \times (1 - .75) = \$7,612.50$$

$$\text{Current stock value} = 700 \times \$44.10 = \$30,870$$

$$\text{Current equity} = \$30,870 - \$7,612.50 = \$23,257.50$$

$$\text{Current margin} = \$23,257.50 / \$30,870 = 75.34 \text{ percent}$$

Jordan - Chapter 002 #83

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN

84. You short sold 600 shares of a stock at \$48 a share. The initial margin requirement is 60 percent and the maintenance margin is 30 percent. What is the amount of your total liability for this transaction as initially shown on your account balance sheet?

- A. \$8,640
- B. \$17,280
- C. \$22,210
- D. \$28,800
- E. \$37,440

$$\text{Liability} = 600 \times \$48 = \$28,800$$

Jordan - Chapter 002 #84

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT SALE

85. Elizabeth short sold 600 shares of stock at \$62 a share. One month later, she covered the short at a price of \$59. What was her total dollar return on this investment?

- A. -\$1,800
- B. -\$1,080
- C. -\$920
- D. \$1,080
- E. \$1,800

$$\text{Total dollar return} = 600 \times (\$62 - \$59) = \$1,800$$

Jordan - Chapter 002 #85

86. Today, you short sold 1,100 shares of Jasper Industrial stock at \$48 a share. The initial margin is 60 percent and the maintenance margin is 30 percent. Which one of the following is correct concerning your account balance sheet for this transaction?
- A. You have an asset of \$31,680 from the sale proceeds.
 - B. You have a liability from the short position of \$21,120.
 - C. Your account equity is \$21,120.
 - D. Your initial margin deposit is \$15,840.
 - E. Your total assets are \$84,480.

$$\text{Total assets} = (1,100 \times \$48) + (1,100 \times \$48 \times .60) = \$84,480$$

87. Matt short sold 900 shares of stock at \$11.50 a share. The initial margin is 80 percent and the maintenance margin is 50 percent. The stock is currently selling for \$5.80 a share. What is Matt's account equity at this time? Ignore margin interest.

- A. \$2,070
- B. \$3,590
- C. \$10,350
- D. \$11,950
- E. \$13,410

Proceeds from sale = $900 \times \$11.50 = \$10,350$

Initial margin deposit = $900 \times \$11.50 \times .80 = \$8,280$

Short position = $900 \times \$5.80 = \$5,220$

Account equity = $\$10,350 + \$8,280 - \$5,220 = \$13,410$

Jordan - Chapter 002 #87

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT SALE BALANCE SHEET

88. You short sold 500 shares of Jasper stock at \$41 a share at an initial margin of 60 percent. What is the highest the stock price can go before you receive a margin call if the maintenance margin is 40 percent?

A. \$46.86

B. \$47.08

C. \$55.50

D. \$56.90

E. \$57.40

$$P^* = \{[(500 \times \$41) + (500 \times \$41 \times .60)] / 500\} / (1 + .40) = \$46.86$$

Jordan - Chapter 002 #88

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: MARGIN CALL ON SHORT SALE

89. Jennifer believes that Northern Wine stock is going to decline in value so she is short selling 800 shares at \$46 a share. Her initial margin requirement is 70 percent and the maintenance margin is 30 percent. What is the highest the stock price can go before she receives a margin call?

A. \$58.97

B. \$60.15

C. \$62.08

D. \$63.75

E. \$65.71

$$P^* = \{[(800 \times \$46) + (800 \times \$46 \times .70)] / 800\} / (1 + .30) = \$60.15$$

Jordan - Chapter 002 #89

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: MARGIN CALL ON SHORT SALE

90. Matt short sold 500 shares of Tall Pines stock at \$19 a share at an initial margin of 65 percent. The maintenance margin is 35 percent. What is the highest the stock price can go before he receives a margin call?

A. \$20.12

B. \$21.48

C. \$23.22

D. \$24.07

E. \$25.16

$$P^* = \{[(500 \times \$19) + (500 \times \$19 \times .65)] / 500\} / (1 + .35) = \$23.22$$

Jordan - Chapter 002 #90

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: MARGIN CALL ON SHORT SALE

91. The short interest on Blue Water Cruisers stock was 218,900 when the market opened this morning. During the day, 107,400 shares were covered and 121,600 shares were sold short. What was the short interest on this stock at the end of the trading day?

- A. 204,700 shares
- B. 221,100 shares
- C. 233,100 shares
- D. 408,100 shares
- E. 447,900 shares

End of day short interest = $218,900 - 107,400 + 121,600 = 233,100$ shares

Jordan - Chapter 002 #91
LEVEL OF DIFFICULTY: CORE
Learning Objective: 2-3
SECTION: 2.3
TOPIC: SHORT INTEREST

92. You just sold 1,200 shares of stock short at a price per share of \$13.50. The initial margin requirement is 60 percent and the maintenance margin is 30 percent. What is your initial equity position?

- A. \$6,480
- B. \$7,520
- C. \$9,720
- D. \$10,520
- E. \$16,200

Proceeds from sale = $1,200 \times \$13.50 = \$16,200$

Initial margin deposit = $1,200 \times \$13.50 \times .60 = \$9,720$

Short position = $1,200 \times \$13.50 = \$16,200$

Account equity = $\$16,200 + \$9,720 - \$16,200 = \$9,720$

Jordan - Chapter 002 #92

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT EQUITY

93. Last week, you sold 300 shares of Hi-Lo stock for \$13,200. The sale was a short sale with an initial margin requirement of 70 percent. The maintenance margin is 40 percent. Some positive news concerning the company was released last night and the stock price jumped this morning to \$51 a share. What is your current margin position in this stock?
- A. 71.33 percent
 - B. 66.67 percent
 - C. 48.33 percent
 - D. 46.67 percent
 - E. 51.33 percent

Proceeds from sale = \$13,200

Initial margin deposit = $\$13,200 \times .70 = \$9,240$

Short position = $300 \times \$51 = \$15,300$

Account equity = $\$13,200 + \$9,240 - \$15,300 = \$7,140$

Margin position = $\$7,140 / \$15,300 = 46.67 \text{ percent}$

Jordan - Chapter 002 #93

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT MARGIN

94. Recently, you sold 1,000 shares of stock for \$21,400. The sale was a short sale with an initial margin requirement of 60 percent. The maintenance margin is 30 percent. The stock is currently trading at \$27.50 a share. What is your current margin position in this stock?

- A. 24.51 percent
- B. 28.11 percent
- C. 32.09 percent
- D. 43.98 percent
- E. 46.69 percent

Proceeds from sale = \$21,400

Initial margin deposit = \$21,400 x .60 = \$12,840

Short position = 1,000 x \$27.50 = \$27,500

Account equity = \$21,400 + \$12,840 - \$27,500 = \$6,740

Margin position = \$6,740 / \$27,500 = 24.51 percent

Jordan - Chapter 002 #94

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT MARGIN

95. Recently, you sold 300 shares of stock for \$14.60 a share. The sale was a short sale with an initial margin requirement of 70 percent. The maintenance margin is 35 percent. The stock is currently trading at \$15.10 a share. What is your current short position in this stock?

- A. \$2,916
- B. \$4,530**
- C. \$7,446
- D. \$10,362
- E. \$11,976

Short position = $300 \times \$15.10 = \$4,530$

Jordan - Chapter 002 #95

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT POSITION

96. You just sold short 700 shares of Highway Construction stock for \$31 a share. The initial margin requirement is 70 percent and the maintenance margin is 35 percent. Construct a balance sheet depicting this transaction.

Assets		Liabilities and Account Equity	
Proceeds from sale	\$21,700	Short position	\$21,700
Initial margin deposit	<u>15,190</u>	Account equity	<u>15,190</u>
Total	\$36,890	Total	\$36,890

Jordan - Chapter 002 #96

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: ACCOUNT BALANCE SHEET

97. Last week, you sold short 400 shares of stock for \$31 a share. The initial margin requirement is 65 percent and the maintenance margin is 30 percent. Today, that stock is selling for \$33 a share. Construct a balance sheet for this short sale reflecting today's values.

Assets		Liabilities and Account Equity	
Proceeds from sale	\$12,400	Short position	\$13,200
Initial margin deposit	<u>8,060</u>	Account equity	<u>7,260</u>
Total	\$20,460	Total	\$20,460

Jordan - Chapter 002 #97

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: ACCOUNT BALANCE SHEET

98. You are having a discussion with Kate when she mentions that she just initiated a short position on ABC stock. Given that statement, what do you know about Kate's future outlook for ABC stock?

A short position provides a positive return to an investor when a security's price declines. Thus, Kate is bearish on the stock as she is expecting the value of that stock to decline.

Jordan - Chapter 002 #98

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: ACCOUNT POSITIONS

99. Why might a brokerage firm set a 30 percent maintenance margin requirement on one stock but a 40 percent requirement on another stock?

Margin requirements can, and do, vary based on the price and volatility of the individual security. The requirements may also vary from one investor to another.

Jordan - Chapter 002 #99

LEVEL OF DIFFICULTY: CORE

Learning Objective: 2-2

SECTION: 2.2

TOPIC: MARGIN REQUIREMENTS

100. This morning, you shorted 100 shares of Better Foods stock at a price per share of \$46. What is the maximum potential profit and maximum potential loss on this position? Explain how you compute these values. Ignore trading costs, taxes, and dividends.

A short sale involves the borrowing of shares that you sell today with the hope that the price per share declines in the near future so that you can purchase shares later at a lower price to replace the borrowed shares. Thus, you profit if the price declines and you incur a loss if the market price increases. The maximum profit would be \$4,600 and would occur only if the stock became worthless. The maximum loss is unlimited as there is no upper limit on the value of a stock.

Jordan - Chapter 002 #100

LEVEL OF DIFFICULTY: INTERMEDIATE

Learning Objective: 2-3

SECTION: 2.3

TOPIC: SHORT SELLING

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