

ch02

Student: _____

1. Which of the following is *not* a money market instrument?
 - A. Treasury bill
 - B. Commercial paper
 - C. Preferred stock
 - D. Bankers' acceptance

2. T-bills are issued with initial maturities of:
 - I. 4 weeks
 - II. 16 weeks
 - III. 26 weeks
 - IV. 32 weeks
 - A. I and II only
 - B. I and III only
 - C. I, II, and III only
 - D. I, II, III, and IV

3. When computing the bank discount yield, you would use ____ days in the year.
 - A. 260
 - B. 360
 - C. 365
 - D. 366

4. A dollar-denominated deposit at a London bank is called _____.
 - A. eurodollars
 - B. LIBOR
 - C. fed funds
 - D. bankers' acceptance

5. Money market securities are sometimes referred to as *cash equivalents* because _____.
 - A. they are safe and marketable
 - B. they are not liquid
 - C. they are high-risk
 - D. they are low-denomination

6. The most marketable money market security is _____.
 - A. Treasury bills
 - B. bankers' acceptances
 - C. certificates of deposit
 - D. common stock

7. The minimum *tick size*, or spread between prices in the Treasury bond market, is
 - A. 1/8 of a point.
 - B. 1/16 of a point.
 - C. 1/32 of a point.
 - D. 1/64 of a point.

8. An investor in a T-bill earns interest by _____.
 - A. receiving interest payments every 90 days
 - B. receiving dividend payments every 30 days
 - C. converting the T-bill at maturity into a higher-valued T-note
 - D. buying the bill at a discount from the face value to be received at maturity

9. _____ would *not* be included in the EAFE index.
- A. Australia
 - B. Canada
 - C. France
 - D. Japan
10. _____ is considered to be an emerging market country.
- A. France
 - B. Norway
 - C. Brazil
 - D. Canada
11. Which one of the following is a true statement?
- A. Dividends on preferred stocks are tax-deductible to individual investors but not to corporate investors.
 - B. Common dividends cannot be paid if preferred dividends are in arrears on cumulative preferred stock.
 - C. Preferred stockholders have voting power.
 - D. Investors can sue managers for nonpayment of preferred dividends.
12. The bid price of a Treasury bill is _____.
- A. the price at which the dealer in Treasury bills is willing to sell the bill
 - B. the price at which the dealer in Treasury bills is willing to buy the bill
 - C. greater than the ask price of the Treasury bill expressed in dollar terms
 - D. the price at which the investor can buy the Treasury bill
13. The German stock market is measured by which market index?
- A. FTSE
 - B. Dow Jones 30
 - C. DAX
 - D. Nikkei
14. Deposits of commercial banks at the Federal Reserve are called _____.
- A. bankers' acceptances
 - B. federal funds
 - C. repurchase agreements
 - D. time deposits
15. Which of the following is *not* a true statement regarding municipal bonds?
- A. A municipal bond is a debt obligation issued by state or local governments.
 - B. A municipal bond is a debt obligation issued by the federal government.
 - C. The interest income from a municipal bond is exempt from federal income taxation.
 - D. The interest income from a municipal bond is exempt from state and local taxation in the issuing state.
16. Which of the following is *not* a characteristic of a money market instrument?
- A. Liquidity
 - B. Marketability
 - C. Low risk
 - D. Maturity greater than 1 year
17. An individual who goes short in a futures position _____.
- A. commits to delivering the underlying commodity at contract maturity
 - B. commits to purchasing the underlying commodity at contract maturity
 - C. has the right to deliver the underlying commodity at contract maturity
 - D. has the right to purchase the underlying commodity at contract maturity
18. Which of the following is *not* a nickname for an agency associated with the mortgage markets?
- A. Fannie Mae
 - B. Freddie Mac
 - C. Sallie Mae
 - D. Ginnie Mae

19. Commercial paper is a short-term security issued by _____ to raise funds.
- A. the Federal Reserve
 - B. the New York Stock Exchange
 - C. large well-known companies
 - D. all of these options
20. The maximum maturity on commercial paper is _____.
- A. 270 days
 - B. 180 days
 - C. 90 days
 - D. 30 days
21. Which one of the following is a true statement regarding the Dow Jones Industrial Average?
- A. It is a value-weighted average of 30 large industrial stocks.
 - B. It is a price-weighted average of 30 large industrial stocks.
 - C. It is a price-weighted average of 100 large stocks traded on the New York Stock Exchange.
 - D. It is a value-weighted average of all stocks traded on the New York Stock Exchange.
22. Treasury bills are financial instruments issued by _____ to raise funds.
- A. commercial banks
 - B. the federal government
 - C. large corporations
 - D. state and city governments
23. Which of the following are true statements about T-bills?
- I. T-bills typically sell in denominations of \$10,000.
 - II. Income earned on T-bills is exempt from all federal taxes.
 - III. Income earned on T-bills is exempt from state and local taxes.
- A. I only
 - B. I and II only
 - C. I and III only
 - D. I, II, and III
24. A bond that has no collateral is called a _____.
- A. callable bond
 - B. debenture
 - C. junk bond
 - D. mortgage
25. A _____ gives its holder the right to sell an asset for a specified exercise price on or before a specified expiration date.
- A. call option
 - B. futures contract
 - C. put option
 - D. interest rate swap
26. A T-bill quote sheet has 90-day T-bill quotes with a 4.92 bid and a 4.86 ask. If the bill has a \$10,000 face value, an investor could buy this bill for _____.
- A. \$10,000
 - B. \$9,878.50
 - C. \$9,877
 - D. \$9,880.16

27. Which one of the following is a true statement regarding corporate bonds?
- A. A corporate callable bond gives its holder the right to exchange it for a specified number of the company's common shares.
 - B. A corporate debenture is a secured bond.
 - C. A corporate convertible bond gives its holder the right to exchange it for a specified number of the company's common shares.
 - D. Holders of corporate bonds have voting rights in the company.
28. The yield on tax-exempt bonds is _____.
- A. usually less than 50% of the yield on taxable bonds
 - B. normally about 90% of the yield on taxable bonds
 - C. greater than the yield on taxable bonds
 - D. less than the yield on taxable bonds
29. _____ is *not* a money market instrument.
- A. A certificate of deposit
 - B. A Treasury bill
 - C. A Treasury bond
 - D. Commercial paper
30. An investor buys a T-bill at a bank discount quote of 4.80 with 150 days to maturity. The investor's actual annual rate of return on this investment is _____.
- A. 4.8%
 - B. 4.97%
 - C. 5.47%
 - D. 5.74%
31. The U.K. stock index is the _____.
- A. DAX
 - B. FTSE
 - C. GSE
 - D. TSE
32. A _____ gives its holder the right to buy an asset for a specified exercise price on or before a specified expiration date.
- A. call option
 - B. futures contract
 - C. put option
 - D. interest rate swap
33. Which one of the following provides the best example of securitization?
- A. Convertible bond
 - B. Call option
 - C. Mortgage pass-through security
 - D. Preferred stock
34. Which of the following indexes are market value-weighted?
- I. The NYSE Composite
 - II. The S&P 500
 - III. The Wilshire 5000
- A. I and II only
 - B. II and III only
 - C. I and III only
 - D. I, II, and III

35. The interest rate charged by large banks in London to lend money among themselves is called _____.
- A. the prime rate
 - B. the discount rate
 - C. the federal funds rate
 - D. LIBOR
36. A firm that has large securities holdings and wishes to raise money for a short length of time may be able to find the cheapest financing from which of the following?
- A. Reverse repurchase agreement
 - B. Bankers' acceptance
 - C. Commercial paper
 - D. Repurchase agreement
37. Currently, the Dow Jones Industrial Average is computed by _____.
- A. adding the prices of 30 large "blue-chip" stocks and dividing by 30
 - B. calculating the total market value of the 30 firms in the index and dividing by 30
 - C. measuring the current total market value of the 30 stocks in the index relative to the total value on the previous day
 - D. adding the prices of 30 large "blue-chip" stocks and dividing by a divisor adjusted for stock splits and large stock dividends
38. An investor purchases one municipal bond and one corporate bond that pay rates of return of 5% and 6.4%, respectively. If the investor is in the 15% tax bracket, his after-tax rates of return on the municipal and corporate bonds would be, respectively, _____.
- A. 5% and 6.4%
 - B. 5% and 5.44%
 - C. 4.25% and 6.4%
 - D. 5.75% and 5.44%
39. If a Treasury note has a bid price of \$996.25, the quoted bid price in the *Wall Street Journal* would be _____.
- A. 99:25
 - B. 99:63
 - C. 99:20
 - D. 99:08
40. TIPS are _____.
- A. Treasury bonds that pay no interest and are sold at a discount
 - B. U.K. bonds that protect investors from default risk
 - C. securities that trade on the Toronto stock index
 - D. Treasury bonds that protect investors from inflation
41. The price quotations of Treasury bonds in the *Wall Street Journal* show a bid price of 102:12 and an ask price of 102:14. If you sell a Treasury bond, you expect to receive _____.
- A. \$1,024.75
 - B. \$1,024.38
 - C. \$1,023.75
 - D. \$1,022.50
42. The Dow Jones Industrial Average is _____.
- A. a price-weighted average
 - B. a value weight and average
 - C. an equally weighted average
 - D. an unweighted average

43. Investors will earn higher rates of returns on TIPS than on equivalent default-risk standard bonds if _____.
- A. inflation is lower than anticipated over the investment period
 - B. inflation is higher than anticipated over the investment period
 - C. the U.S. dollar increases in value against the euro
 - D. the spread between commercial paper and Treasury securities remains low
44. Preferred stock is like long-term debt in that _____.
- A. it gives the holder voting power regarding the firm's management
 - B. it promises to pay to its holder a fixed stream of income each year
 - C. the preferred dividend is a tax-deductible expense for the firm
 - D. in the event of bankruptcy preferred stock has equal status with debt
45. Which of the following does *not* approximate the performance of a buy-and-hold portfolio strategy?
- A. An equally weighted index
 - B. A price-weighted index
 - C. A value-weighted index
 - D. All of these options (Weights are not a factor in this situation.)
46. In calculating the Dow Jones Industrial Average, the adjustment for a stock split occurs _____.
- A. automatically
 - B. by adjusting the divisor
 - C. by adjusting the numerator
 - D. by adjusting the market value weights
47. Suppose the market prices of the 30 stocks in the Dow Jones Industrial Average all change by the same dollar amount on a given day. Assuming there are no stock splits, which stock will have the greatest impact on the average?
- A. The one with the highest price
 - B. The one with the lowest price
 - C. All 30 stocks will have the same impact.
 - D. The answer cannot be determined from the information given.
48. A bond issued by the state of Alabama is priced to yield 6.25%. If you are in the 28% tax bracket, this bond would provide you with an equivalent taxable yield of _____.
- A. 4.5%
 - B. 7.25%
 - C. 8.68%
 - D. none of these options
49. The purchase of a futures contract gives the buyer _____.
- A. the right to buy an item at a specified price
 - B. the right to sell an item at a specified price
 - C. the obligation to buy an item at a specified price
 - D. the obligation to sell an item at a specified price
50. Ownership of a put option entitles the owner to the _____ to _____ a specific stock, on or before a specific date, at a specific price.
- A. right; buy
 - B. right; sell
 - C. obligation; buy
 - D. obligation; sell

51. An investor in a 28% tax bracket is trying to decide whether to invest in a municipal bond or a corporate bond. She looks up municipal bond yields (r_m) but wishes to calculate the taxable equivalent yield r . The formula she should use is given by _____.
- A. $r = r_m \times (1 - 28\%)$
 - B. $r = r_m / (1 - 72\%)$
 - C. $r = r_m \times (1 - 72\%)$
 - D. $r = r_m / (1 - 28\%)$
52. June call and put options on King Books Inc. are available with exercise prices of \$30, \$35, and \$40. Among the different exercise prices, the call option with the _____ exercise price and the put option with the _____ exercise price will have the greatest value.
- A. \$40; \$30
 - B. \$30; \$40
 - C. \$35; \$35
 - D. \$40; \$40
53. Ownership of a call option entitles the owner to the _____ to _____ a specific stock, on or before a specific date, at a specific price.
- A. right; buy
 - B. right; sell
 - C. obligation; buy
 - D. obligation; sell
54. The _____ the ratio of municipal bond yields to corporate bond yields, the _____ the cutoff tax bracket at which more individuals will prefer to hold municipal debt.
- A. higher; lower
 - B. lower; lower
 - C. higher; higher
 - D. The answer cannot be determined without more information.
55. Which of the following types of bonds are excluded from most bond indexes?
- A. Corporate bonds
 - B. Junk bonds
 - C. Municipal bonds
 - D. None of these options
56. The Hang Seng index reflects market performance on which of the following major stock markets?
- A. Japan
 - B. Singapore
 - C. Taiwan
 - D. Hong Kong
57. The Standard & Poor's 500 is _____ weighted index.
- A. an equally
 - B. a price-
 - C. a value-
 - D. a share-
58. A firm that fails to pay dividends on its preferred stock is said to be _____.
- A. insolvent
 - B. in arrears
 - C. insufferable
 - D. delinquent

59. Large well-known companies often issue their own short-term unsecured debt notes directly to the public, rather than borrowing from banks; their notes are called _____.
- A. certificates of deposit
 - B. repurchase agreements
 - C. bankers' acceptances
 - D. commercial paper
60. Which of the following is most like a short-term collateralized loan?
- A. Certificate of deposit
 - B. Repurchase agreement
 - C. Bankers' acceptance
 - D. Commercial paper
61. Eurodollars are _____.
- A. dollar-denominated deposits at any foreign bank or foreign branch of an American bank
 - B. dollar-denominated bonds issued by firms outside their home market
 - C. currency issued by Euro Disney and traded in France
 - D. dollars that wind up in banks as a result of money-laundering activities
62. Which of the following is used to back international sales of goods and services?
- A. Certificate of deposit
 - B. Bankers' acceptance
 - C. Eurodollar deposits
 - D. Commercial paper
63. Treasury notes have initial maturities between _____ years.
- A. 2 and 4
 - B. 5 and 10
 - C. 10 and 30
 - D. 1 and 10
64. Which of the following is *not* a characteristic of common stock ownership?
- A. Residual claimant
 - B. Unlimited liability
 - C. Voting rights
 - D. Limited life of the security
65. If you thought prices of stock would be rising over the next few months, you might want to _____ on the stock.
- A. purchase a call option
 - B. purchase a put option
 - C. sell a futures contract
 - D. place a short-sale order
66. A typical bond price quote includes all but which one of the following?
- A. Daily high price for the bond
 - B. Closing bond price
 - C. Yield to maturity
 - D. Dividend yield
67. What are business firms most likely to use derivative securities for?
- A. Hedging
 - B. Speculating
 - C. Doing calculus problems
 - D. Market making

68. What would you expect to have happened to the spread between yields on commercial paper and Treasury bills immediately after September 11, 2001?
- A. No change, as both yields will remain the same
 - B. Increase, as the spread usually increases in response to a crisis
 - C. Decrease, as the spread usually decreases in response to a crisis
 - D. No change, as both yields will move in the same direction
69. A stock quote indicates a stock price of \$60 and a dividend yield of 3%. The latest quarterly dividend received by stock investors must have been _____ per share.
- A. \$0.55
 - B. \$1.80
 - C. \$0.45
 - D. \$1.25
70. Three stocks have share prices of \$12, \$75, and \$30 with total market values of \$400 million, \$350 million, and \$150 million, respectively. If you were to construct a price-weighted index of the three stocks, what would be the index value?
- A. 300
 - B. 39
 - C. 43
 - D. 30
71. Which of the following is *not* considered a money market investment?
- A. Bankers' acceptance
 - B. Eurodollar
 - C. Repurchase agreement
 - D. Treasury note
72. The Federal Reserve Board of Governors directly controls which of the following interest rates?
- A. Bankers' acceptances
 - B. Brokers' calls
 - C. Federal funds
 - D. LIBOR
73. You decide to purchase an equal number of shares of stocks of firms to create a portfolio. If you wanted to construct an index to track your portfolio performance, your best match for your portfolio would be to construct _____.
- A. a value-weighted index
 - B. an equally weighted index
 - C. a price-weighted index
 - D. a bond price index
74. In a _____ index, changes in the value of the stock with the greatest market value will move the index value the most, everything else equal.
- A. value-weighted index
 - B. equally weighted index
 - C. price-weighted index
 - D. bond price index
75. A corporation in a 34% tax bracket invests in the preferred stock of another company and earns a 6% pretax rate of return. An individual investor in a 15% tax bracket invests in the same preferred stock and earns the same pretax return. The after-tax return to the corporation is _____, and the after-tax return to the individual investor is _____.
- A. 3.96%; 5.1%
 - B. 5.39%; 5.1%
 - C. 6%; 6%
 - D. 3.96%; 6%

76. All but which one of the following indices is value weighted?
- A. NASDAQ Composite
 - B. S&P 500
 - C. Wilshire 5000
 - D. DJIA
77. What is the tax exempt equivalent yield on a 9% bond yield given a marginal tax rate of 28%?
- A. 6.48%
 - B. 7.25%
 - C. 8.02%
 - D. 9%
78. A tax free municipal bond provides a yield of 3.2%. What is the equivalent taxable yield on the bond given a 35% tax bracket?
- A. 3.2%
 - B. 3.68%
 - C. 4.92%
 - D. 5%
79. An index computed from a simple average of returns is a/an _____.
- A. equal weighted index
 - B. value weighted index
 - C. price weighted index
 - D. share weighted index
80. A tax free municipal bond provides a yield of 2.34%. What is the equivalent taxable yield on the bond given a 28% tax bracket?
- A. 2.34%
 - B. 2.68%
 - C. 3.25%
 - D. 4.92%
81. The Chompers Index is a price weighted stock index based on the 3 largest fast food chains. The stock prices for the three stocks are \$54, \$23, and \$44. What is the price weighted index value of the Chompers Index?
- A. 23.43
 - B. 35.36
 - C. 40.33
 - D. 49.58
82. The Hydro Index is a price weighted stock index based on the 5 largest boat manufacturers in the nation. The stock prices for the five stocks are \$10, \$20, \$80, \$50 and \$40. The price of the last stock was just split 2 for 1 and the stock price was halved from \$40 to \$20. What is the new divisor for a price weighted index?
- A. 5.00
 - B. 4.85
 - C. 4.50
 - D. 4.75
83. A benchmark index has three stocks priced at \$23, \$43, and \$56. The number of outstanding shares for each is 350,000 shares, 405,000 shares, and 553,000 shares, respectively. If the market value weighted index was 970 yesterday and the prices changed to \$23, \$41, and \$58, what is the new index value?
- A. 960
 - B. 970
 - C. 975
 - D. 985

84. A benchmark market value index is comprised of three stocks. Yesterday the three stocks were priced at \$12, \$20, and \$60. The number of outstanding shares for each is 600,000 shares, 500,000 shares, and 200,000 shares, respectively. If the stock prices changed to \$16, \$18, and \$62 today respectively, what is the 1-day rate of return on the index?
- A. 5.78%
 - B. 4.35%
 - C. 6.16%
 - D. 7.42%
85. Which of the following mortgage scenarios will benefit the homeowner the most?
- A. Adjustable rate mortgage when interest rate increases.
 - B. Fixed rate mortgage when interest rates falls.
 - C. Fixed rate mortgage when interest rate rises.
 - D. None of these options, as the banker's interest will always be protected.
86. The TED spread refers to
- A. the difference between the Treasury bond rate and the Treasury bill rate.
 - B. the difference between the Treasury note rate and the Treasury bill rate.
 - C. the difference between the LIBOR rate and the Treasury bill rate.
 - D. the difference between the LIBOR rate and the Treasury bond rate.

ch02 Key

1. C
2. B
3. B
4. A
5. A
6. A
7. D
8. D
9. B
10. C
11. B
12. B
13. C
14. B
15. B
16. D
17. A
18. C
19. C
20. A
21. B
22. B
23. C
24. B
25. C
26. B
27. C
28. D
29. C
30. B
31. B
32. A
33. C
34. D
35. D
36. D

37. D
38. B
39. C
40. D
41. C
42. A
43. B
44. B
45. A
46. B
47. C
48. C
49. C
50. B
51. D
52. B
53. A
54. A
55. B
56. D
57. C
58. B
59. D
60. B
61. A
62. B
63. D
64. B
65. A
66. D
67. A
68. B
69. C
70. B
71. D
72. C
73. C
74. A

75. B

76. D

77. A

78. C

79. A

80. C

81. C

82. C

83. C

84. C

85. C

86. C

ch02 Summary

<u>Category</u>	<u># of Questions</u>
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