Student name:___________

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

**1)** 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.

**2)** 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.

**3)** Jack is researching chemical companies 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.

**4)** A Roth IRA:

A) is a form of "tax-deferred" account.
B) funds are taxed at the time you begin withdrawals.
C) are well suited to investors nearing retirement.
D) invests after-tax dollars.
E) is the type of account offered by most employers.

**5)** 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

**6)** Kay just purchased $5,000 worth of stock. She paid $3,000 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.

**7)** 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

**8)** 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.

**9)** 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.

**10)** Sam purchased 500 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.

**11)** 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.

**12)** 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.

**13)** 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.

**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)** 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.

**16)** To be considered liquid, a security must:

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

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

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

**18)** Brooke has decided to invest 55% of her money in large company stocks, 40% in small company stocks, and 5% in cash. This is a(n) ________ decision.

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

**19)** 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

**20)** 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.

**21)** 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.

**22)** 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.

**23)** 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

**24)** Tom 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 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) cyber broker.

**25)** Which one of the following statements is correct?

A) Most brokerage agreements require that 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.

**26)** 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.

**27)** 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

**28)** 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.

**29)** Staci just used $6,000 of cash plus a $3,500 margin loan to purchase $9,500 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) $2,500.
B) $3,500.
C) $6,000.
D) $9,500.
E) $19,000.

**30)** Ann just purchased $8,000 of stock. She paid $7,000 in cash and borrowed the remaining $1,000 needed to pay for this purchase. If you constructed a balance sheet reflecting this transaction, the total assets would be:

A) $1,000.
B) $6,000.
C) $7,000.
D) $8,000.
E) $16,000.

**31)** 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%. The initial margin requirement is ________% and the maintenance margin is ________%.

A) 30; 30
B) 30; 70
C) 70; 30
D) 70; 50
E) 70; 70

**32)** 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.

**33)** 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.

**34)** 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.

**35)** 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

**36)** 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.

**37)** 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.

**38)** 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.

**39)** 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

**40)** 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.

**41)** 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.

**42)** 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

**43)** 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.

**44)** 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.

**45)** 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

**46)** 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.

**47)** 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

**48)** Tate Industries stock is selling for $16 a share. You would like to purchase as many shares of this stock as you can. Your margin account currently has available cash of $6,000 and the initial margin requirement is 75%. What is the maximum number of shares you can buy?

A) 281 shares
B) 375 shares
C) 300 shares
D) 450 shares
E) 500 shares

**49)** Todd has a margin account with $17,400 in available cash. The initial margin is 70% and the maintenance margin is 30%. 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

**50)** Theresa has a margin account with a 70% initial margin requirement and a 35% maintenance margin. What is the maximum dollar amount of stock she can purchase if her cash balance in the account is $27,000?

A) $9,450.00
B) $18,900.00
C) $38,571.43
D) $58,833.33
E) $77,142.86

**51)** You recently purchased 700 shares of Southern Timber stock for $25 a share. Your broker required a cash payment of $11,375, plus trading costs, for this purchase. What was the initial margin requirement?

A) 60%
B) 65%
C) 70%
D) 75%
E) 80%

**52)** Donna recently purchased 600 shares of Deltona stock for $37 a share. Her broker required a cash payment of $16,650, plus trading costs, for the purchase. What is the initial margin requirement on this stock?

A) 60%
B) 65%
C) 75%
D) 80%
E) 90%

**53)** 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%
B) 75%
C) 80%
D) 90%
E) 100%

**54)** Stephen is purchasing 1,000 shares of KPT, Inc., stock at a price per share of $18.60. What is the minimum amount the Federal Reserve will require Stephen to pay in cash for this purchase?

A) $5,500
B) $7,440
C) $9,300
D) $11,160
E) $18,600

**55)** Alfonso purchased 500 shares of Crosswinds, Inc., stock on 60% margin when the stock was selling for $35 a share. The stock is currently selling for $33 a share. What is his current equity position?

A) $5,000
B) $6,000
C) $9,500
D) $16,500
E) $17,500

**56)** You purchased 1,000 shares of stock at $35 a share. The stock is currently selling for $39 a share. The initial margin was 70% and the maintenance margin is 30%. What is your current margin position?

A) 28.50%
B) 25.00%
C) 63.59%
D) 73.08%
E) 75.00%

**57)** You own 400 shares of a stock that you purchased on margin at a price per share of $20.74. The stock is currently valued at $20 a share. Your broker advised you that your minimum equity position for this purchase is $2,800 as of today. What is the maintenance margin percentage?

A) 25%
B) 30%
C) 35%
D) 40%
E) 50%

**58)** Sun Lee purchased 1,500 shares of Franklin Metals stock for $16.80 a share. The stock was purchased with an initial margin of 65%. The maintenance margin is 30%. The stock is currently selling for $17.10 a share. What is the minimum dollar amount of equity that he must have in this stock today to avoid a margin call?

A) $7,544
B) $7,695
C) $7,760
D) $7,808
E) $7,973

**59)** Rosita purchased 500 shares of a stock for $25 a share. Today, the stock is selling for $30 a share. The initial margin requirement is 65% and the maintenance margin is 30%. Rosita had to pay ________ in cash to purchase the stock and must have at least ________ in equity today.

A) $4,500; $3,690
B) $4,500; $4,500
C) $4,500; $8,125
D) $8,125; $3,690
E) $8,125; $4,500

**60)** Allan purchased 500 shares of stock on margin for $31.75 a share and sold the shares five months later for $34.50 a share. The initial margin requirement was 65% and the maintenance margin was 30%. The interest rate on the margin loan was 8.5%. He received no dividend income. What was his holding period return?

A) 7.05%
B) 8.45%
C) 9.88%
D) 10.76%
E) 11.46%

**61)** 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% while the maintenance margin is 40%. 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 ________% as compared to Sam's ________% 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

**62)** Stacy purchased 400 shares of stock for $38 a share. She sold those shares six months later for $34 a share. The initial margin requirement is 80% and the maintenance margin is 40%. Ignore margin interest and trading costs. If she purchased the shares for cash, her holding period return would be ________% as compared to ________% if she had used margin.

A) −10.12; −12.84
B) −10.53; −13.16
C) −11.63; −14.30
D) −11.63; −14.54
E) −12.27; −15.82

**63)** A stock was purchased for $45 a share and sold ten months later for $48 a share. If the shares were purchased totally with cash the holding period return would be ________% as compared to ________% if the purchase was made using 70% margin. Ignore trading costs and margin interest.

A) 6.25; 8.93
B) 6.25; 9.52
C) 6.67; 8.93
D) 6.67; 9.52
E) 8.93; 9.52

**64)** You purchased a stock for $18.45 a share using 70% margin. You sold the stock seven months later for $19.85 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) 8.77%
B) 9.12%
C) 10.84%
D) 11.75%
E) 12.13%

**65)** 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% and the maintenance margin is 40%. Ignoring dividends and costs, what is his holding period return?

A) 3.72%
B) 3.86%
C) 4.54%
D) 4.95%
E) 5.14%

**66)** Mary purchased 100 shares of Best Foods stock on margin at a price of $37 a share. The initial margin requirement is 60% and the maintenance margin is 35%. What is the lowest the stock price can go before Mary receives a margin call?

A) $22.77
B) $24.50
C) $26.43
D) $28.00
E) $33.00

**67)** You purchased 800 shares of stock for $49.20 a share. The initial margin requirement is 65% and the maintenance margin is 35%. 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

**68)** Aaron purchased 200 shares of a technology stock for $13.30 a share. The initial margin requirement on this stock is 75% and the maintenance margin is 50%. What is the lowest the stock price can go before he receives a margin call?

A) $4.43
B) $6.65
C) $6.80
D) $8.50
E) $9.50

**69)** You purchased 400 shares of stock for $28.50 a share. The initial margin requirement is 60% and the maintenance margin is 30%. What is the maximum percentage decrease that can occur in the stock price before you receive a margin call?

A) 35.01%
B) 42.86%
C) 46.15%
D) 57.14%
E) 62.54%

**70)** Nelson purchased 1,600 shares of stock for $18.75 a share. The initial margin requirement is 70% and the maintenance margin is 40%. What is the maximum percent by which the stock price can decline before he receives a margin call?

A) 30%
B) 45%
C) 50%
D) 65%
E) 70%

**71)** You purchase 500 shares of stock on margin at a cost per share of $22. The initial margin requirement is 60%. The effective interest rate on the margin loan is 6.4%. 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

**72)** Sarah purchased 700 shares of Detroit Motors stock at a price of $55 a share. The initial margin requirement is 60% and the maintenance margin is 35%. The effective interest rate on the margin loan is 4.5%. How much margin interest will she pay if she repays the loan in four months?

A) $227.62
B) $303.32
C) $417.29
D) $530.42
E) $647.96

**73)** Today, you are purchasing 100 shares of stock on margin. The purchase price per share is $35. The initial margin requirement is 70% and the maintenance margin is 30%. The call money rate is 4.5% and you are charged 1.6% 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%
B) 6.42%
C) 7.18%
D) 7.49%
E) 8.03%

**74)** Seven months ago, you purchased 400 shares of stock on margin. The initial margin requirement on your account is 60% and the maintenance margin is 30%. The call money rate is 4.8% and you pay 1.85% above that rate. The purchase price was $16 a share. Today, you sold these shares for $18.00 each. What is your annualized rate of return?

A) 26.15%
B) 33.35%
C) 42.77%
D) 56.87%
E) 64.64%

**75)** Eight months ago, Freda purchased 500 shares of stock on margin at a price per share of $26. The initial margin requirement on her account is 60% and the maintenance margin is 40%. The call money rate is 2.5% and she pays 2% above that rate. Today, she sold these shares for $27.22 each. What is her annualized rate of return?

A) 8.88%
B) 9.99%
C) 10.00%
D) 11.11%
E) 12.22%

**76)** Three months ago, Trevor purchased 500 shares of stock at a cost per share of $64.20. The purchase was made on margin with an initial margin requirement of 65%. Trevor pays 1.6% over the call money rate of 4.8%. What will his total dollar return be on this investment if he sells his shares today at a price per share of $63.40? Ignore dividends.

A) −$548.60
B) −$539.67
C) −$534.95
D) −$575.60
E) −$591.19

**77)** 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% and the maintenance margin is 30%. Robin pays 1.2% over the call money rate of 4.9%. 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

**78)** You recently purchased 200 shares of stock at a cost per share of $23.50. The initial margin requirement on this stock is 75% and the maintenance margin is 50%. The stock is currently valued at $25.00 a share. What is your current margin position? Ignore margin interest.

A) 73.01%
B) 73.83%
C) 74.40%
D) 76.50%
E) 76.79%

**79)** 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% and the maintenance margin is 30%. The stock is currently valued at $42.30 a share. What is your current margin position? Ignore margin interest.

A) 46.91%
B) 48.84%
C) 63.05%
D) 65.28%
E) 78.18%

**80)** Yvette recently purchased 500 shares of stock at a cost per share of $34.50. The initial margin requirement on this stock is 75% and the maintenance margin is 40%. The stock is currently valued at $36.75 a share. What is her current margin position? Ignore margin interest.

A) 74.29%
B) 74.78%
C) 75.70%
D) 76.53%
E) 76.94%

**81)** You short sold 600 shares of a stock at $52 a share. The initial margin requirement is 75% and the maintenance margin is 35%. What is the amount of your total liability for this transaction as initially shown on your account balance sheet?

A) $8,640
B) $17,500
C) $22,210
D) $31,200
E) $36,400

**82)** Elizabeth short sold 500 shares of stock at $25 a share. One month later, she covered the short at a price of $22. What was her total dollar return on this investment?

A) −$2,400
B) −$1,800
C) $1,500
D) $1,600
E) $1,800

**83)** Today, you short sold 1,100 shares of Jasper Industrial stock at $48 a share. The initial margin is 60% and the maintenance margin is 30%. 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.

**84)** Mark short sold 500 shares of stock at $12.50 a share. The initial margin is 80% and the maintenance margin is 50%. The stock is currently selling for $9.80 a share. What is Matt's account equity at this time? Ignore margin interest.

A) $2,070
B) $4,590
C) $6,350
D) $8,950
E) $10,510

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

A) $46.86
B) $47.08
C) $55.50
D) $56.90
E) $57.40

**86)** Jennifer believes that Northern Wine stock is going to decline in value so she is short selling 1,000 shares at $22 a share. Her initial margin requirement is 70% and the maintenance margin is 30%. What is the highest the stock price can go before she receives a margin call?

A) $28.77
B) $29.15
C) $30.85
D) $31.75
E) $32.77

**87)** Mike short sold 400 shares of DeSoto Lumber stock at $22 a share at an initial margin of 70%. The maintenance margin is 35%. What is the highest the stock price can go before he receives a margin call?

A) $24.12
B) $25.48
C) $26.22
D) $27.70
E) $28.16

**88)** The short interest on Blue Water Cruisers stock was 234,500 when the market opened this morning. During the day, 190,500 shares were covered and 166,100 shares were sold short. What was the short interest on this stock at the end of the trading day?

A) 210,100 shares
B) 215,000 shares
C) 258,900 shares
D) 308,100 shares
E) 591,100 shares

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

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

**90)** Last week, you sold 300 shares of ABC stock for $6,300. The sale was a short sale with an initial margin requirement of 70%. The maintenance margin is 40%. Some positive news concerning the company was released last night and the stock price jumped this morning to $28 a share. What is your current margin position in this stock?

A) 61.33%
B) 56.67%
C) 48.33%
D) 38.68%
E) 27.50%

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

A) 24.51%
B) 28.11%
C) 32.09%
D) 43.98%
E) 46.69%

**92)** Recently, you sold 600 shares of stock for $17.60 a share. The sale was a short sale with an initial margin requirement of 70%. The maintenance margin is 35%. The stock is currently trading at $18.80 a share. What is your current short position in this stock?

A) $5,916
B) $6,840
C) $8,900
D) $10,532
E) $11,280

**93)** Neshoba Industries stock is selling for $33 a share. You would like to purchase as many shares of this stock as you can. Your margin account currently has available cash of $7,000 and the initial margin requirement is 65%. What is the maximum number of shares you can buy?

A) 193 shares
B) 287 shares
C) 300 shares
D) 326 shares
E) 606 shares

**94)** Sam is purchasing 800 shares of RPT, Inc., stock at a price per share of $24.50. What is the minimum amount the Federal Reserve will require Sam to pay in cash for this purchase?

A) $4,488
B) $6,200
C) $9,800
D) $10,968
E) $11,960

**95)** Louis purchased 300 shares of stock on margin for $22.15 a share and sold the shares eleven months later for $24.50 a share. The initial margin requirement was 75% and the maintenance margin was 30%. The interest rate on the margin loan was 8.5%. He received no dividend income. What was his holding period return?

A) 7.05%
B) 8.45%
C) 9.88%
D) 10.76%
E) 11.56%

**96)** Marcia purchased 100 shares of Hyde Foods stock on margin at a price of $35 a share. The initial margin requirement is 65% and the maintenance margin is 35%. What is the lowest the stock price can go before Marcia receives a margin call?

A) $18.85
B) $24.50
C) $28.00
D) $30.00
E) $33.00

**97)** Sarah purchased 700 shares of Detroit Motors stock at a price of $45 a share. The initial margin requirement is 70% and the maintenance margin is 30%. The effective interest rate on the margin loan is 6.5%. How much margin interest will she pay if she repays the loan in five months?

A) $187.29
B) $204.12
C) $217.29
D) $230.42
E) $251.25

**98)** You recently purchased 200 shares of stock at a cost per share of $22.25. The initial margin requirement on this stock is 75% and the maintenance margin is 50%. The stock is currently valued at $24.00 a share. What is your current margin position? Ignore margin interest.

A) 73.01%
B) 73.83%
C) 74.95%
D) 75.69%
E) 76.82%

**99)** Rylee short sold 600 shares of stock at $16.25 a share. The initial margin is 75% and the maintenance margin is 50%. The stock is currently selling for $19.50 a share. What is Rylee's account equity at this time? Ignore margin interest.

A) $1,070.75
B) $3,590.25
C) $5,362.50
D) $8,950.00
E) $10,510.35

**100)** Last week, you sold 800 shares of Ace stock for $24,000. The sale was a short sale with an initial margin requirement of 70%. The maintenance margin is 40%. Some positive news concerning the company was released last night and the stock price jumped this morning to $35 a share. What is your current margin position in this stock?

A) 61.33%
B) 56.67%
C) 45.71%
D) 38.68%
E) 27.50%

**101)** John just used $15,000 of cash plus a $6,000 margin loan to purchase $21,000 worth of Walmart (WMT) stock. This is the only transaction he has made in this account. What is his current account margin?

A) $3,000
B) $6,000
C) $9,000
D) $15,000
E) $21,000

**102)** Todd has $54,000 cash in his margin account. His initial margin is 60% and the maintenance margin is 35%. What is the maximum number of shares he can purchase if the price per share is $25?

A) 1,296 shares
B) 2,160 shares
C) 3,600 shares
D) 5,400 shares
E) 6,171 shares

**103)** Whitney just purchased 100 shares of Disney (DIS) stock for $135.00 a share. Her broker required a cash payment of $10,125, not including trading costs, for the purchase. What is her initial margin requirement for this stock?

A) 70%
B) 75%
C) 80%
D) 90%
E) 100%

**104)** Maddie recently short sold 400 shares of common stock for $25 a share. Her initial margin requirement was 70% and the maintenance margin is 35%. The stock is currently trading at $22.22 a share. What is her current short position in this stock?

A) $2,666
B) $7,000
C) $8,888
D) $10,000
E) $11,333

**105)** Colton would like to purchase as many shares of Apple stock (AAPL) as he is able. He currently has $10,000 in cash and the stock is selling for $250 a share. How many shares can he purchase if the initial margin is 70% and the maintenance margin is 35%?

A) 28 shares
B) 40 shares
C) 52 shares
D) 57 shares
E) 114 shares

# Answer Key

Test name: Investments 2

1) C
See Section 2.1

2) D
See Section 2.1

3) E
See Section 2.1

4) D
See Section 2.1

5) E
See Section 2.3

6) B
See Section 2.3

7) B
See Section 2.3

8) C
See Section 2.3

9) A
See Section 2.3

10) B
See Section 2.3

11) C

See Section 2.3

12) E
See Section 2.4

13) E
See Section 2.4

14) A
See Section 2.5

15) B
See Section 2.1

16) E
See Section 2.1

17) A
See Section 2.1

18) E
See Section 2.1

19) B
See Section 2.1

20) E
See Section 2.2

21) A
See Section 2.1

22) A
See Section 2.1

23) B
See Section 2.1

24) C
See Section 2.2

25) E
See Section 2.2

26) D
See Section 2.2

27) C
See Section 2.2

28) E
See Section 2.2

29) C
See Section 2.3

30) D
See Section 2.3

31) C
See Section 2.3

32) C
See Section 2.3

33) A
See Section 2.3

34) B
See Section 2.3

35) B
See Section 2.3

36) D
See Section 2.3

37) B
See Section 2.3

38) E
See Section 2.3

39) A
See Section 2.2

40) A
See Section 2.2

41) A
See Section 2.4

42) E
See Section 2.4

43) A
See Section 2.4

44) B
See Section 2.4

45) C
See Section 2.4

46) E
See Section 2.4

47) A
See Section 2.4

48) E

Maximum purchase = $6,000 / .75 = $8,000

Maximum number of shares = $8,000 / $16 = 500 shares, rounded down to the last full share

49) B

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

50) C

Maximum purchase = $27,000 / .70 = $38,571.43

51) B

Purchase cost = 700 × $25 = $17,500

Initial margin percentage = $11,375 / $17,500 = .65, or 65%

52) C

Purchase cost = 600 × $37 = $22,200

Initial margin percentage = $16,650 / $22,200 = .75, or 75%

53) E

Purchase cost = 300 × $4.40 = $1,320

Initial margin percentage = $1,320 / $1,320 = 1.00, or 100%

54) C

Minimum cash required = .50 × 1,000 × $18.60 = $9,300

55) C

Margin loan = 500 × $35 × (1 − .60) = $7,000

Current equity = (500 × $33) − $7,000 = $9,500

56) D

Margin loan = 1,000 × $35 × (1 − .70) = $10,500

Current equity = (1,000 × $39) − $10,500 = $28,500

Margin position = $28,500 / (1,000 × $39) = .7308, or 73.08%

57) C

Maintenance margin percentage = $2,800 / (400 × $20) = .35, or 35%

58) B
Minimum equity = 1,500 × $17.10 × .30 = $7,695

59) E
Initial cash requirement = 500 × $25 × .65 = $8,125
Current equity requirement = 500 × $30 × .30 = $4,500

60) E
Initial investment = 500 × $31.75 × .65 = $10,318.75
Loan repayment = [500 × $31.75 × (1 − .65)] × $(1.085)^{5/12}$ = $5,748.36
HPR = [(500 × $34.50) − $5,748.36 − $10,318.75] / $10,318.75 = .1146, or 11.46%

61) D
Tony's HPR without margin = [100 × ($40 − $43)] / (100 × $43) = −.0698, or −6.98%.
Sam's HPR with margin = [100 × ($40 − $43)] / (100 × $43 × .60) = −.1163, or −11.63%.

62) B
HPR without margin = ($34 − $38) / $38 = −.1053, or −10.53%.
HPR with margin = ($34 − $38) / ($38 × .80) = −.1316, or −13.16%.

63) D
HPR without margin = ($48 − $45) / $45 = .0667, or 6.67%.
HPR with margin = ($48 − $45) / ($45 × .70) = .0952, or 9.52%.

64) C
HPR = ($19.85 − $18.45) / ($18.45 × .70) = .1084, or 10.84%.

65) E
HPR = ($64.60 − $62.20) / ($62.20 × .75) = .0514, or 5.14%

66) A
P* = {[100 × $37 × (1 − .60)] / 100} / (1 − .35) = $22.77

67) E

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

68) B

$P^* = \{[200 \times \$13.30 \times (1 - .75)] / 200\} / (1 - .50) = \$6.65$

69) B

$P^* = \{[400 \times \$28.50 \times (1 - .60)] / 400\} / (1 - .30) = \$16.2857$

Maximum percentage decline = $1 - (\$16.2857 / \$28.50) = .4286$, or 42.86%

70) C

$P^* = \{[1{,}600 \times \$18.75 \times (1 - .70)] / 1{,}600\} / (1 - .40) = \$9.375$

Maximum percentage decline = $1 - (\$9.375 / \$18.75) = .50$, or 50%

71) B

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

72) A

Margin interest = $[(1 + .045)^{4/12} - 1] \times [700 \times \$55 \times (1 - .60)] = \$227.62$

73) A

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

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

Rate of return = $[(100 \times \$37) - \$1{,}114.05 - \$2{,}450] / \$2{,}450 = .0555$, or 5.55%

74) B

Initial investment = $400 \times \$16 \times .60 = \$3{,}840$

Loan repayment = $[400 \times \$16 \times (1 - .60)] \times [1 + (.048 + .0185)]^{7/12} = 2{,}657.97$

HPR = $[(400 \times \$18.00) - \$3{,}840 - \$2{,}657.97] / \$3{,}840 = .1828$

EAR = $(1 + .1828)^{12/7} - 1 = .3335$, or 33.35%

75) A

Initial investment = 500 × \$26 × .60 = \$7,800

Loan repayment = [500 × \$26 × (1 − .60)] × $[1 + (.025 + .02)]^{8/12}$ = \$5,354.85

HPR = [(500 × \$27.22) − \$5,354.85 − \$7,800] / \$7,800 = .0584

EAR = $(1 + .0584)^{1/8} - 1$ = .0888, or 8.88%

76) D

Initial investment = 500 × \$64.20 × .65 = \$20,865

Loan repayment = [500 × \$64.20 × (1 − .65)] × $[1 + (.016 + .048)]^{3/12}$ = \$11,410.60

HPR = [(500 × \$63.40) − \$11,410.60 − \$20,865] = −\$575.60

77) C

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

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

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

78) D

Margin loan = 200 × \$23.50 × (1 − .75) = \$1,175

Current stock value = 200 × \$25.00 = \$5,000

Current equity = \$5,000 − \$1,175= \$ 3,825

Current margin = \$3,825 / \$5,000 = .7650, or 76.50%

79) B

Margin loan = 1,300 × \$54.10 × (1 − .60) = \$28,132

Current stock value = 1,300 × \$42.30 = \$54,990

Current equity = \$54,990 − \$28,132 = \$26,858

Current margin = \$26,858 / \$54,990 = .4884, or 48.84%

80) D

Margin loan = 500 × $34.50 × (1 − .75) = $4,312.50
Current stock value = 500 × $36.75 = $18,375
Current equity = $18,375 − $4,312.50 = $14,062.50
Current margin = $14,062.50 / $18,375 = .7653, or 76.53%

81) D
Liability = 600 × $52 = $31,200

82) C
Total dollar return = 500 × ($25 − $22) = $1,500

83) E
Total assets = (1,100 × $48) + (1,100 × $48 × .60) = $84,480

84) C
Proceeds from sale = 500 × $12.50 = $6,250
Initial margin deposit = 500 × $12.50 × .80 = $5,000
Short position = 500 × $9.80 = $4,900
Account equity = $6,250 + $5,000 − $4,900 = $6,350

85) A
P* = {[(500 × $41) + (500 × $41 × .60)] / 500} / (1 + .40) = $46.86

86) A
P* = {[(1,000 × $22) + (1,000 × $22 × .70)] / 1,000} / (1 + .30) = $28.77

87) D
P* = {[(400 × $22) + (400 × $22 × .70)] / 400} / (1 + .35) = $27.70

88) A
End of day short interest = 234,500 − 190,500 + 166,100 = 210,100 shares

89) C

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

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

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

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

90) E

Proceeds from sale = \$6,300

Initial margin deposit = \$6,300 × .70 = \$4,410

Short position = 300 × \$28 = \$8,400

Account equity = \$6,300 + \$4,410 − \$8,400 = \$2,310

Margin position = \$2,310 / \$8,400 = .2750, or 27.50%

91) A

Proceeds from sale = \$21,400

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

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

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

Margin position = \$6,740 / \$27,500 = .2451, or 24.51%

92) E

Short position = 600 × \$18.80 = \$11,280

93) D

Maximum purchase = \$7,000 / .65 = \$10,769.23

Maximum number of shares = \$10,769.23 / \$33 = 326 shares, rounded down to the last full share

94) C

Minimum cash required = .50 × 800 × \$24.50 = \$9,800

95) E

Initial investment = $300 \times \$22.15 \times .75 = \$4,983.75$

Loan repayment = $[300 \times \$22.15 \times (1 - .75)] \times (1.085)^{11/12} = \$1,790.24$

HPR = $[(300 \times \$24.50) - \$1,790.24 - \$4,983.75] / \$4,983.75 = .1156$, or 11.56%.

96) A

$P^* = \{[100 \times \$35 \times (1 - .65)] / 100\} / (1 - .35) = \$18.85$

97) E

Margin interest = $[(1 + .065)^{5/12} - 1] \times [700 \times \$45 \times (1 - .70)] = \$251.25$

98) E

Margin loan = $200 \times \$22.25 \times (1 - .75) = \$1,112.50$

Current stock value = $200 \times \$24.00 = \$4,800$

Current equity = $\$4,800 - \$1,112.50 = \$3,687.50$

Current margin = $\$3,687.50 / \$4,800 = .7682$, or 76.82%

99) C

Proceeds from sale = $600 \times \$16.25 = \$9,750$

Initial margin deposit = $600 \times \$16.25 \times .75 = \$7,312.50$

Short position = $600 \times \$19.50 = \$11,700$

Account equity = $\$9,750 + \$7,312.50 - \$11,700 = \$5,362.50$

100) C

Proceeds from sale = \$24,000

Initial margin deposit = $\$24,000 \times .70 = \$16,800$

Short position = $800 \times \$35 = \$28,000$

Account equity = $\$24,000 + \$16,800 - \$28,000 = \$12,800$

Margin position = $\$12,800 / \$28,000 = .4571$, or 45.71%

101) D

See Section 2.3

102) C

Maximum purchase = $54,000 / .6 = $90,000

Maximum number of shares = $90,000 / $25 = 3,600 shares

103) B

Purchase cost = 100 × $135.00 = $13,500

Initial margin percentage = $10,125 / $13,500 = .75, or 75%

104) C

Short position = 400 × $22.22 = $8,888

105) D

Maximum purchase = $10,000 / .70 = $14,285.71

Maximum number of shares = $14,285.71 / $250 = 57 shares, rounded down to the last full share