Fall 2021 FI540 Investment Analysis Final Exam. Total 35 questions.

1. The means by which individuals hold their claims on real assets in a well-developed economy are

A. investment assets.
B. depository assets.
C. derivative assets
D. financial assets.

2. The price for which the individual investor is willing to buy the security is the:

A. bid price

B. buy price

C. ask price

D. limit price

3. You have never traded AAPL (no position on AAPL). You are very optimistic about Apple's stock, which order should you use when you make a trade with a goal to make a profit:

A. Sell Short
B. Buy Put Option
C. Buy Call Option
D. Buy to Cover

4. When trading securities, sales of securities that the seller does not own with an expectation of falling price is called a:

A. stop-loss

B. sell short

C. limit sell

D. day sell

5. When an individual buys Wal-Mart's existing common stocks WMT, transactions take place

A. in the secondary market.

B. in the primary market.

C. must with the assistance of an investment banker.

D. in an Over-the-Counter (OTC) market.

6. Which one of the following is NOT a primary market function of investment bankers?

A. search for potential issuing firms

B. commitment on proceeds to the issuing firm

C. sell shares they bought from the issuing firm to private investors

D. provide recommendations, such as buy, hold, or sell, on the securities they underwrite on the IPO day

7. You purchased 100 shares of ABC common stock on margin at $60 per share. Assume the initial margin is 50% and the maintenance margin is 30%. Below what stock price level would you get a margin call? Assume the stock pays no dividend and ignore interest on margin.

A. $42.86

B. $50.75

C. $49.67

D. $80.34

8. You purchased a share of stock for $29. One year later you received $2.25 as dividend and sold the share for $28. Your holding-period return was __________.

A. -3.57%

B. - 3.45%

C. 4.31%

D. 8.03%

9. If you are promised a nominal return of 12% on a one-year investment, and you expect the rate of inflation to be 3%, what real rate do you expect to earn according to Fisher's equation?

A. 5.48%
B. 8.74%
C. 9.80%
D. 12.00%

10. You have made a holding period return of 44% over Two Years, what is the annualized holding period return?

A. 20%
B. 11%
C. 44%
D. 22%

11. Decreasing the number of stocks in a portfolio from 50 to 10 would likely ________________________.

A. increase the systematic risk of the portfolio
B. increase the unsystematic risk of the portfolio
C. increase the return of the portfolio
D. decrease the total risk of the portfolio

12. You put half of your money in a stock portfolio that has an expected return of 14% and a standard deviation of 24%. You put the rest of you money in a risky bond portfolio that has an expected return of 6% and a standard deviation of 12%. The stock and bond portfolio have a correlation +1. The standard deviation of the resulting portfolio will be ________________.

A. more than 24%
B. less than 12%
C. more than 12% but less than 24%
D. equal to 12%

13. Diversification is most effective when security returns are _________.
A. positively correlated at +0.5
B. negatively correlated at -1
C. positively correlated at +1
D. uncorrelated at 0

14. A portfolio is composed of two stocks, A and B. Stock A has a standard deviation of return of 35% while stock B has a standard deviation of return of 15%. The correlation coefficient between the returns on A and B is 0.45. Stock A comprises 40% of the portfolio while stock B comprises 60% of the portfolio. The standard deviation (square root of the variance) of the return on this portfolio is _________.
A. 23.00%
B. 19.76%
C. 18.45%
D. 17.67%

15. Asset A has an expected return of 15% and a Sharpe ratio of 0.4. Asset B has an expected return of 20% and a Sharpe ratio of 0.3. Assuming these two assets are mutually exclusive, a rational investor would prefer ______.
A. asset A
B. asset B
C. both asset A and asset B
D. can't tell from the data given

16. The risk-free rate and the expected market rate of return are 0.06 and 0.12, respectively. According to the capital asset pricing model (CAPM), the expected rate of return on security X with a beta of 1.2 is equal to
A. 0.06.
B. 0.144.
C. 0.12.
D. 0.132

17. The Security Market Line (SML) is
A. also called the Capital Allocation Line.
B. the line that is tangent to the efficient frontier of all risky assets.
C. the line that represents the expected return-beta relationship.
D. the line that represents the relationship between an individual security's return and the market's return.

18. A preferred stock will pay a dividend of $3.75 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 10% on this stock. Use the constant growth DDM to calculate the intrinsic value of this preferred stock.
A. $0.375
B. $37.50
C. $31.82
D. $56.25

19. (Common Stock Present Value) What price would you expect to pay for a stock with 13% required rate of return, 4% rate of dividend growth, and an annual dividend of $2.50 which will be paid one year from now?
A. $31.10
B. $27.78
C. $31.39
D. $30.28

20. You wish to earn a return of 13% on each of two stocks, X and Y. Stock X is expected to pay a dividend of $3 in the upcoming year while Stock Y is expected to pay a dividend of $4 in the upcoming year. The expected growth rate of dividends for both stocks is 7%. The intrinsic value of stock X ______.
A. cannot be calculated without knowing the market rate of return
B. will be greater than the intrinsic value of stock Y
C. will be the same as the intrinsic value of stock Y
D. will be less than the intrinsic value of stock Y

21. High Tech Chip Company is expected to have EPS in the coming year of $2.50. The expected ROE is 12.5%. An appropriate required return on the stock is 11%. If the firm has a plowback ratio of 70%, the growth rate of dividends should be
A. 6.25%
B. 6.60%
C. 7.50%
D. 8.75%

22. Of the following four investments, ________ is considered the least risky.
A. Treasury bills
B. corporate bonds
C. U. S. Agency issues
D. Treasury bonds

23. The bonds of Elbow Grease Dishwashing Company have received a rating of "C" by Moody's. The "C" rating indicates the bonds are _________.
A. high grade
B. good grade
C. investment grade
D. junk bonds

24. A bond will sell at a discount when __________.

A. yield to maturity is less than the current yield

B. the coupon rate is greater than yield to maturity

C. the coupon rate is greater than the current yield

D. the coupon rate is less than yield to maturity

25. A coupon bond that pays interest annually has a par value of $1,000, matures in 5 years, and has a yield to maturity of 10%. The intrinsic value of the bond today will be ______ if the coupon rate is 7%.
A. $712.99
B. $620.92
C. $1,123.01
D. $886.28

26. Holding other factors constant, which one of the following bonds has the shortest duration?
A. 5-year, 0% coupon bond
B. 5-year, 12% coupon bond
C. 5 year, 14% coupon bond
D. 5-year, 10% coupon bond

27. A perpetuity pays $100 each and every year forever. The duration of this perpetuity will be ___________ if its yield is 9%.
A. 7 years
B. 9 years
C. 9.39 years
D. 12.11 years

28. An 8% coupon rate, 30-year bond has a yield-to-maturity of 10% and a duration of 8.8 years. If the market yield drops by 15 basis points (0.15%), there will be a ___________ in the bond's price.
A. 1.15% decrease
B. 1.20% increase
C. 1.53% increase
D. 2.43% decrease

29. Which one of the following 12% coupon bonds, with its yield to maturity at 12%, sells at par $1000 experiences a price increase of $23 when the market yield drops by 56 basis points (0.56%)?

A. The bond with a duration of 6 years.
B. The bond with a duration of 3 years.
C. The bond with a duration of 2.7 years.
D. The bond with a duration of 4.6 years.

30. Consider a bond selling at $1000 par value with duration of 11.13 years and convexity of 210. Its yield to maturity is 5% at current. What would be the percentage price change according to the duration-with-convexity rule if yield increases from 5% to 6%?

A. -9.55%
B. 9.55%
C. 10.6%
D. -10.6%

31. The current market price of a share of Disney stock is $60. If a call option on this stock has a strike price of $65, the call

A. is out of the money.

B. is in the money.

C. can be exercised profitably.

D. is out of the money and can be exercised profitably.

32. The maximum loss a buyer of a stock call option can suffer is equal to

A. the striking price minus the stock price.

B. the stock price minus the value of the call.

C. the call premium.

D. the stock price.

33. Top Flight Stock currently sells for $53. A one-year call option with strike price of $58 sells for $10, and the risk-free interest rate is 5.5%. What is the price of a one-year put with strike price of $58 according to the put-call parity theorem?

A. $10.00

B. $12.12

C. $16.00

D. $11.98

34. The current market price of a share of AT&T stock is $50. If a call option on this stock has a strike price of $45, the call

A. is out of the money.

B. sells for a higher price than if the market price of AT&T stock is $40.

C. is out of the money and sells for a higher price than if the market price of AT&T stock is $40.

D. is in the money and sells for a higher price than if the market price of AT&T stock is $40.

35. The current market price of a share of JNJ stock is $60. If a put option on this stock has a strike price of $55, the put

A. is in the money.

B. sells for a lower price than if the market price of JNJ stock is $50.

C. is out of the money and sells for a lower price than if the market price of JNJ stock is $50.

D. is in the money and sells for a lower price than if the market price of JNJ stock is $50.