- 01 Financial markets that facilitate the flow of long-term funds with maturities of more than one year are known as
 - money markets
 - capital markets
 - o primary markets
 - o secondary markets

02 Financial markets facilitating the issuance of new securities are known as

- ° _____·
- o money markets
- o capital markets
- primary markets
- secondary markets

03 ______ are not considered capital market securities.

- $\circ \quad \text{bonds}$
- o mortgages
- retail CDs
- o stocks

04 ______ are financial contracts whose values are obtained from the values of underlying assets.

- \circ Bonds
- o Mortgages
- o Stocks
- Derivatives

05 A bank's _____ quote is slightly higher than its _____ quote.

- ask; bid
- $\circ \quad \text{bid; ask} \\$
- \circ ask; transaction
- $\circ \quad \text{transaction; bid} \\$
- 06 In a(n) _____ market, all information about any securities for sale is continuously and freely available to investors.
 - inefficient
 - o efficient
 - perfect

07

09

- o imperfect
- are depository financial institutions.
 - Savings banks
 - Finance companies
 - Mutual funds
 - Securities firms
- 08 In aggregate, ______ are the most dominant depository institution.
 - o credit unions
 - o savings banks
 - o savings and loan associations
 - commercial banks

sell shares to surplus units and use the funds received to purchase a portfolio of securities. They are the

dominant nondepository financial institution when measured in total assets.

- Securities firms
- Mutual funds
- Finance companies
- o Pension funds

10 The main source of funds for ______ is deposits from households, businesses, and government agencies, while their main use of funds is the purchase of government and corporate securities and mortgages and other loans to households.

- savings institutions
- o commercial banks
- mutual funds
- o finance companies
- 11 The Govt.government commonly acts as a surplus unit.
 - o True
 - o False
- 12 An investor who holds bonds has partial ownership in a corporation.
 - o True
 - False
- 13 When security prices fully reflect all available information, the markets for these securities are said to be efficient.
 - True
 - o False
- 14 To prevent overreactions to rumors, so-called circuit breakers are now used to permanently halt the trading of some securities or contracts.
 - o True
 - o False
- 15 Securities firms can act both as brokers and as dealers.
 - o True
 - False
- 16 Which of the following is not a money market security?
 - Treasury bill
 - o commercial paper
 - bond
 - o repurchase agreement

17 Treasury bills

- offer coupon payments.
- are sold at a discount from par value.
- have a yield equal to the coupon rate.
- are not sold in the secondary market.
- 18 An investor purchases a six-month (182-day) T-bill with a Rs10,000 par value for Rs9,850. If the investor holds the Treasury bill to maturity, his annualized yield is _____ percent.
 - o 1.52
 - o **1.50**
 - o **3.05**

- o **3.01**
- 19 An investor purchases a six-month (182-day) T-bill with a Rs10,000 par value for Rs9,850. If the investor holds the Treasury bill to maturity, the Treasury bill discount yield is _____ percent.
 - o **3.05**
 - o **2.97**
 - o **3.01**
 - none of the above
- 20 An investor purchases a six-month (182-day) T-bill with a Rs10,000 par value for Rs9,850. If the investor had sold the T-bill after 100 days for Rs9,940, her annualized yield would be _____ percent.
 - o **3.34**
 - o **3.29**
 - o **1.83**
 - o **1.80**
- 21 At a given point in time, the yield on commercial paper is ______ the yield on a T-bill with the same maturity.
 - slightly lower than
 - slightly higher than
 - o about equal to
 - o none of the above
- 22 (Financial calculator required.) An investor would like to purchase a bond that has a par value of Rs1,000 and pays Rs60 at the end of each year in coupon payments. The bond has seven years remaining until it matures. If the prevailing annualized yield on other bonds with similar characteristics is 5 percent, how much should the investor be willing to pay for the bond?
 - O Rs1,000.00
 - O Rs1,057.86
 - o Rs944.18
 - o none of the above
- 23 Jerry Garcia purchased a Rs1,000 par value bond with a 9 percent annual coupon rate and an original maturity of 20 years. The bond was issued four years ago, and the yield to maturity is 11 percent. What is the price Mr. Garcia should be willing to pay for this bond?
 - o Rs1,166.25
 - o **Rs1,000**
 - O Rs852.42
 - o Rs840.73
- 24 If a bond pays interest semiannually, which of the following adjustments needs to be made to correctly compute the price of the bond?
 - The number of years should be split in half.
 - The annualized coupon should be doubled.
 - The annual yield to maturity should be divided by 2.
 - The par value should be split in half.
- 25 A private investor is considering the purchase of a Rs1,000 par value bond paying interest semiannually. The bond has an annualized coupon rate of 8 percent, and bonds with similar characteristics pay interest rates of 6 percent. The bond has 15 years remaining to maturity. A fair price for the bond is Rs_____.
 - o **1,000.00**
 - o **1,196.00**

- o **1,194.24**
- o **827.08**
- 26 If a bond sells above its par value, it is called a _____ bond.
 - o discount
 - premium
 - o callable
 - o convertible
- 27 If the coupon rate of a bond is ______ the yield to maturity, the price of the bond should be ______ the par value.
 - below; above
 - above; below
 - \circ above; above
 - above; the same as

28 7. A ______ than expected level of inflation will put ______ pressure on the value of bonds.

- higher; downward
- higher; upward
- o lower; downward
- o none of the above
- 29 A zero-coupon bond sells for Rs1,000. Assume that the required rate of return changes from 6 percent to 5 percent. As a result, the price of the zero bond increases to Rs1,070. What is the bond price elasticity for this bond?
 - o -7.00
 - o -0.42
 - o 0.42
 - o **7.00**
- 30 A bond has a par value of Rs1,000 and pays Rs100 in interest every year. The bond has three years remaining to maturity, and the yield to maturity is 8 percent. What is the duration of this bond?
 - O 2.74 years
 - o 1.23 years
 - 2.64 years
 - o none of the above
- 31 Refer to question 9. The modified duration of this bond is ______ years.
 - o 2.40
 - o 1.14
 - o **2.54**
 - o none of the above
- 32 Three bonds comprise a portfolio that is valued at Rs500,000. The investment in the first bond is Rs100,000, the investment in the second bond is Rs200,000, and the investment in the third bond is Rs200,000. The first bond has a duration of 1.8 years, the second bond has a duration of 1.7 years, and the third bond has a duration of 2.0 years. What is the duration of the portfolio of bonds?
 - 0 **1.84 years**
 - o 1.50 years
 - o 1.69 years
 - none of the above

33 In the ______ strategy, funds are evenly allocated to bonds in each of several different maturity classes.

- \circ matching
- laddered

- o barbell
- o interest rate
- 34 Strong economic growth tends to place downward pressure on interest rates.
 - o True
 - o False
- 35 As interest rates decrease, short-term bond prices increase by a greater degree than long-term bond prices.
 - o True
 - o False
- 36 7. An investor purchases 270-day commercial paper with a par value of Rs2,000,000 for a price of Rs1,960,000. The yield is _____ percent.
 - o **2.76**
 - o **2.67**
 - o **2.72**
 - none of the above
- 37 Which of the following financial institutions does not frequently participate in repurchase agreements?
 - o banks
 - o savings and loan associations
 - o money market funds
 - All of the above frequently participate in repos.
- 38 In the ______ strategy, funds are evenly allocated to bonds in each of several different maturity classes.
 - o matching
 - laddered
 - o barbell
 - o interest rate
- 39 If short-term interest rates decline, the required rate of return on money market securities will ______, and the values of money market securities will _____.
 - increase; decline
 - o decline; increase
 - o decline; decline
 - increase; increase
- **40** 11. Which of the following securities probably has the lowest degree of default risk? **a. Treasury bill**
 - negotiable certificate of deposit
 - o banker's acceptance
 - o all of the above have the same degree of default risk
 - have the highest degree of interest rate risk.
 - Fixed-rate eurodollar CDs
 - Eurodollar floating-rate CDs (FRCDs)
 - Floating-rate eurodollar loans
 - All of the above are affected equally by an increase in interest rates.
- 42 The yield of a newly issued Treasury bill that is held to maturity will always be Lower than the Treasury bill Discount.
 - True

41 ____

o False

- 43 Commercial paper is a short-term debt instrument issued only by well- known, credit-worthy firms and is typically unsecured.
 - o True
 - o False
- 44 When firms sell their commercial paper at a lower price than projected, their cost of raising funds will be higher than they initially anticipated.
 - o True
 - o False
- 45 There is an active secondary market for repos.
 - o True
 - o False
- 46 During periods of heightened uncertainty about the economy, investors tend shift from risky money market securities to Treasury securities.
 - o True
 - O False
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the bond should be

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 - o convertible
- 50 If the coupon rate of a bond is ______ the yield to maturity, the price of
 - the par value.
 - o below; above
 - o above; below
 - o above; above
 - above; the same as