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| Name of the University | State Economic University of Azerbaijan |
| Major | Finance |
| Subject |  |
| Educational level | Bachelor |

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| 1 | Every financial intermediary has the following main characteristic: |  |
| a) | It determines the level of interest rates. |  |
| b) | It allows common stock to be traded. |  |
| c) | It allows loans to be made. |  |
| d) | **It channels funds from lenders-savers to borrowers-spenders.** |  |
| e) | It allows investors to invest successful projects. |  |
| 2 | Well-functioning financial markets |  |
| a) | cause inflation. |  |
| b) | eliminate the need for indirect finance. |  |
| c) | cause financial crises. |  |
| d) | **produce an efficient allocation of capital.** |  |
| e) | decreases economic growth |  |
| 3 | You can borrow $5000 to finance a new business venture. This new venture will generate annual earnings of $251. The maximum interest rate that you would pay on the borrowed funds and still increase your income is |  |
| a) | 25%. |  |
| b) | 12.5%. |  |
| c) | 10%. |  |
| d) | **5%.** |  |
| e) | 8%. |  |
| 4 | Securities are \_\_\_\_\_\_\_\_ for the person who buys them, but are \_\_\_\_\_\_\_\_ for the individual or firm that issues them. |  |
| a) | **assets; liabilities** |  |
| b) | liabilities; assets |  |
| c) | negotiable; nonnegotiable |  |
| d) | nonnegotiable; negotiable |  |
| e) | liability; capital |  |
| 5 | Which of the following statements about the characteristics of debt and equities is true? |  |
| a) | **They can both be long-term financial instruments.** |  |
| b) | Bond holders are residual claimants. |  |
| c) | The income from bonds is typically more variable than that from equities. |  |
| d) | Bonds pay dividends. |  |
| e) | Shares pay fixed payments |  |
| 6 | Which of the following statements about financial markets and securities is true? |  |
| a) | A bond is a long-term security that promises to make periodic payments called dividends to the firmʹs residual claimants. |  |
| b) | A debt instrument is intermediate term if its maturity is less than one year. |  |
| c) | A debt instrument is intermediate term if its maturity is ten years or longer. |  |
| d) | **The maturity of a debt instrument is the number of years (term) to that instrumentʹs** expiration date. |  |
| e) | The income from bonds is typically more variable than that from equities. |  |
| 7 | Which of the following is an example of an intermediate-term debt? |  |
| a) | A thirty-year mortgage. |  |
| b) | **A sixty-month car loan.** |  |
| c) | A six month loan from a finance company. |  |
| d) | A Treasury bond. |  |
| e) | A year car loan. |  |
| 8 | If the maturity of a debt instrument is less than one year, the debt is called \_\_\_\_\_\_\_\_. |  |
| a) | **short-term** |  |
| b) | intermediate-term |  |
| c) | long-term |  |
| d) | prima-term |  |
| e) | basic-term |  |
| 9 | Long-term debt has a maturity that is \_\_\_\_\_\_\_\_. |  |
| a) | between one and ten years. |  |
| b) | less than a year. |  |
| c) | between five and ten years. |  |
| d) | **ten years or longer.** |  |
| e) | between one and six months |  |
| 10 | When I purchase \_\_\_\_\_\_\_\_, I own a portion of a firm and have the right to vote on issues important to the firm and to elect its directors. |  |
| a) | bonds |  |
| b) | bills |  |
| c) | notes |  |
| d) | **stock** |  |
| e) | coupon |  |
| 11 | Equity holders are a corporation’s \_\_\_\_\_\_\_\_. That means the corporation must pay all of its debt holders before it pays its equity holders. |  |
| a) | debtors |  |
| b) | brokers |  |
| c) | **residual claimants** |  |
| d) | underwriters |  |
| e) | borrowers |  |
| 12 | Which of the following benefit directly from any increase in the corporationʹs profitability? |  |
| a) | a bond holder |  |
| b) | a commercial paper holder |  |
| c) | **a shareholder** |  |
| d) | a T-bill holder |  |
| e) | a broker |  |
| 13 | A financial market in which previously issued securities can be resold is called a \_\_\_\_\_\_\_\_ market. |  |
| a) | primary |  |
| b) | **secondary** |  |
| c) | tertiary |  |
| d) | used securities |  |
| e) | loan |  |
| 14 | An important financial institution that assists in the initial sale of securities in the primary market is the |  |
| a) | **investment bank.** |  |
| b) | commercial bank. |  |
| c) | stock exchange. |  |
| d) | brokerage house. |  |
| e) | central bank |  |
| 15 | When an investment bank \_\_\_\_\_\_\_\_ securities, it guarantees a price for a corporationʹs securities and then sells them to the public. |  |
| a) | **underwrites** |  |
| b) | undertakes |  |
| c) | overwrites |  |
| d) | overtakes |  |
| e) | underprice |  |
| 16 | A corporation acquires new funds only when its securities are sold in the |  |
| a) | **primary market by an investment bank.** |  |
| b) | primary market by a stock exchange broker. |  |
| c) | secondary market by a securities dealer. |  |
| d) | secondary market by a commercial bank. |  |
| e) | primary market by a central bank. |  |
| 17 | .  A liquid asset is |  |
| a) | **an asset that can easily and quickly be sold to raise cash.** |  |
| b) | a share of an ocean resort. |  |
| c) | difficult to resell. |  |
| d) | always sold in an over-the-counter market. |  |
| e) | always sold in a primary market |  |
| 18 | A financial market in which only short-term debt instruments are traded is called the \_\_\_\_\_\_\_\_ market. |  |
| a) | bond |  |
| b) | **money** |  |
| c) | capital |  |
| d) | stock |  |
| e) | commodities |  |
| 19 | .  Equity instruments are traded in the \_\_\_\_\_\_\_\_ market. |  |
| a) | money |  |
| b) | bond |  |
| c) | **capital** |  |
| d) | commodities |  |
| e) | debt |  |
| 20 | .  U.S. Treasury bills pay no interest but are sold at a \_\_\_\_\_\_\_\_. That is, you will pay a lower purchase price than the amount you receive at maturity. |  |
| a) | premium |  |
| b) | collateral |  |
| c) | default |  |
| d) | **discount** |  |
| e) | net worth |  |
| 21 | U.S. Treasury bills are considered the safest of all money market instruments because there is no risk of \_\_\_\_\_\_\_\_. |  |
| a) | defeat |  |
| b) | **default** |  |
| c) | desertion |  |
| d) | demarcation |  |
| e) | decline |  |
| 22 | A short-term debt instrument issued by well-known corporations is called |  |
| a) | **commercial paper.** |  |
| b) | corporate bonds. |  |
| c) | municipal bonds. |  |
| d) | commercial mortgages. |  |
| e) | t-bills |  |
| 23 | Which of the following are short-term financial instruments? |  |
| a) | **A repurchase agreement.** |  |
| b) | A share of Walt Disney Corporation stock. |  |
| c) | A Treasury note with a maturity of four years. |  |
| d) | A residential mortgage. |  |
| e) | Corporate bonds |  |
| 24 | Which of the following instruments are traded in a money market? |  |
| a) | State and local government bonds. |  |
| b) | **U.S. Treasury bills.** |  |
| c) | Corporate bonds. |  |
| d) | U.S. government agency securities. |  |
| e) | Bank commercial loans. |  |
| 25 | Equity and debt instruments with maturities greater than one year are called \_\_\_\_\_\_\_\_ market instruments. |  |
| a) | **capital** |  |
| b) | money |  |
| c) | federal |  |
| d) | benchmark |  |
| e) | Commercial |  |
| 26 | Which of the following instruments are traded in a capital market? |  |
| a) | **Corporate bonds.** |  |
| b) | U.S. Treasury bills. |  |
| c) | Negotiable bank CDs. |  |
| d) | Repurchase agreements. |  |
| e) | Commercial papers. |  |
| 27 | The time and money spent in carrying out financial transactions are called |  |
| a) | economies of scale. |  |
| b) | financial intermediation. |  |
| c) | liquidity services. |  |
| d) | **transaction costs.** |  |
| e) | economies of scope. |  |
| 28 | Economies of scale enable financial institutions to |  |
| a) | **reduce transactions costs.** |  |
| b) | avoid the asymmetric information problem. |  |
| c) | avoid adverse selection problems. |  |
| d) | reduce moral hazard. |  |
| e) | avoid principal agent problem |  |
| 29 | Financial institutions that accept deposits and make loans are called \_\_\_\_\_\_\_\_ institutions. |  |
| a) | investment |  |
| b) | contractual savings |  |
| c) | **depository** |  |
| d) | underwriting |  |
| e) | non-depository |  |
| 30 | Which of the following is a depository institution? |  |
| a) | A life insurance company |  |
| b) | **A credit union** |  |
| c) | A pension fund |  |
| d) | A mutual fund |  |
| e) | A security firm |  |
| 31 | The primary assets of credit unions are |  |
| a) | municipal bonds. |  |
| b) | business loans. |  |
| c) | **consumer loans.** |  |
| d) | mortgages. |  |
| e) | t-bills |  |
| 32 | The concept of \_\_\_\_\_\_\_\_ is based on the common-sense notion that a dollar paid to you in the future is less valuable to you than a dollar today. |  |
| a) | **present value** |  |
| b) | future value |  |
| c) | interest |  |
| d) | deflation |  |
| e) | depreciation |  |
| 33 | The present value of an expected future payment \_\_\_\_\_\_\_\_ as the interest rate increases. |  |
| a) | **falls** |  |
| b) | rises |  |
| c) | is constant |  |
| d) | is unaffected |  |
| e) | appreciates |  |
| 34 | An increase in the time to the promised future payment \_\_\_\_\_\_\_\_ the present value of the payment. |  |
| a) | **decreases** |  |
| b) | increases |  |
| c) | has no effect on |  |
| d) | is irrelevant to |  |
| e) | Boosts |  |
| 35 | To claim that a lottery winner who is to receive $1 million per year for twenty years has won $20 million ignores the process of |  |
| a) | face value. |  |
| b) | par value. |  |
| c) | deflation. |  |
| d) | **discounting the future.** |  |
| e) | depreciation. |  |
| 36 | A credit market instrument that provides the borrower with an amount of funds that must be repaid at the maturity date along with an interest payment is known as a |  |
| a) | **simple loan.** |  |
| b) | fixed-payment loan. |  |
| c) | coupon bond. |  |
| d) | discount bond. |  |
| e) | indexed loan. |  |
| 37 | A credit market instrument that requires the borrower to make the same payment every period until the maturity date is known as a |  |
| a) | simple loan. |  |
| b) | **fixed-payment loan.** |  |
| c) | coupon bond. |  |
| d) | discount bond. |  |
| e) | indexed loan. |  |
| 38 | A credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called a |  |
| a) | simple loan. |  |
| b) | fixed-payment loan. |  |
| c) | **coupon bond.** |  |
| d) | discount bond. |  |
| e) | indexed bond. |  |
| 39 | A \_\_\_\_\_\_\_\_ pays the owner a fixed coupon payment every year until the maturity date, when the \_\_\_\_\_\_\_\_ value is repaid. |  |
| a) | coupon bond; discount |  |
| b) | discount bond; discount |  |
| c) | **coupon bond; face** |  |
| d) | discount bond; face |  |
| e) | indexed bond; face |  |
| 40 | The \_\_\_\_\_\_\_\_ is the final amount that will be paid to the holder of a coupon bond. |  |
| a) | discount value |  |
| b) | coupon value |  |
| c) | **face value** |  |
| d) | present value |  |
| e) | fixed value |  |
| 41 | An $8,000 coupon bond with a $400 coupon payment every year has a coupon rate of |  |
| a) | **5 percent.** |  |
| b) | 8 percent. |  |
| c) | 10 percent. |  |
| d) | 40 percent. |  |
| e) | 20 percent. |  |
| 42 | A bond that is bought at a price below its face value and the face value is repaid at a maturity date is called a |  |
| a) | simple loan. |  |
| b) | fixed-payment loan. |  |
| c) | coupon bond. |  |
| d) | **discount bond.** |  |
| e) | indexed bond. |  |
| 43 | A \_\_\_\_\_\_\_\_ is bought at a price below its face value, and the \_\_\_\_\_\_\_\_ value is repaid at the maturity date. |  |
| a) | coupon bond; discount |  |
| b) | discount bond; discount |  |
| c) | coupon bond; face |  |
| d) | **discount bond; face** |  |
| e) | indexed bond; face |  |
| 44 | .  Examples of discount bonds include |  |
| a) | **U.S. Treasury bills.** |  |
| b) | corporate bonds. |  |
| c) | U.S. Treasury notes. |  |
| d) | municipal bonds. |  |
| e) | commercial papers. |  |
| 45 | .  For simple loans, the simple interest rate is \_\_\_\_\_\_\_\_ the yield to maturity. |  |
| a) | greater than |  |
| b) | less than |  |
| c) | **equal to** |  |
| d) | not comparable to |  |
| e) | irrelevant to |  |
| 46 | The present value of a fixed-payment loan is calculated as the \_\_\_\_\_\_\_\_ of the present value of all cash flow payments. |  |
| a) | **sum** |  |
| b) | difference |  |
| c) | multiple |  |
| d) | log |  |
| e) | derivative |  |
| 47 | The price of a coupon bond and the yield to maturity are \_\_\_\_\_\_\_\_ related; that is, as the yield to maturity \_\_\_\_\_\_\_\_, the price of the bond \_\_\_\_\_\_\_\_. |  |
| a) | positively; rises; rises |  |
| b) | negatively; falls; falls |  |
| c) | positively; rises; falls |  |
| d) | **negatively; rises; falls** |  |
| e) | negatively; rises; rises |  |
| 48 | The yield to maturity is \_\_\_\_\_\_\_\_ than the \_\_\_\_\_\_\_\_ rate when the bond price is \_\_\_\_\_\_\_\_ its face value. |  |
| a) | greater; coupon; above |  |
| b) | **greater; coupon; below** |  |
| c) | greater; perpetuity; above |  |
| d) | less; perpetuity; below |  |
| e) | less; coupon; below |  |
| 49 | A $10,000 8 percent coupon bond that sells for $10,000 has a yield to maturity of |  |
| a) | **8 percent.** |  |
| b) | 10 percent. |  |
| c) | 12 percent. |  |
| d) | 14 percent. |  |
| e) | 16 percent. |  |
| 50 | Which of the following $1,000 face-value securities has the highest yield to maturity? |  |
| a) | A 5 percent coupon bond selling for $1,000 |  |
| b) | A 10 percent coupon bond selling for $1,000 |  |
| c) | **A 12 percent coupon bond selling for $1,000** |  |
| d) | A 12 percent coupon bond selling for $1,100 |  |
| e) | A 12 percent coupon bond selling for $1,200 |  |
| 51 | Which of the following $5,000 face-value securities has the highest to maturity? |  |
| a) | A 6 percent coupon bond selling for $5,000 |  |
| b) | A 6 percent coupon bond selling for $5,500 |  |
| c) | A 10 percent coupon bond selling for $5,000 |  |
| d) | **A 12 percent coupon bond selling for $4,500** |  |
| e) | A 12 percent coupon bond selling for $5000 |  |
| 52 | The yield to maturity for a one-year discount bond equals the increase in price over the year, divided by the |  |
| a) | **initial price.** |  |
| b) | face value. |  |
| c) | interest rate. |  |
| d) | coupon rate. |  |
| e) | discount rate |  |
| 53 | If a $10,000 face-value discount bond maturing in one year is selling for $5,000, then its yield to maturity is |  |
| a) | 5 percent. |  |
| b) | 10 percent. |  |
| c) | 50 percent. |  |
| d) | **100 percent.** |  |
| e) | 200 percent. |  |
| 54 | A discount bond selling for $15,000 with a face value of $20,000 in one year has a yield to maturity of |  |
| a) | 3 percent. |  |
| b) | 5 percent. |  |
| c) | 20 percent. |  |
| d) | 25 percent. |  |
| e) | **33.3 percent.** |  |
| 55 | The yield to maturity for a discount bond is \_\_\_\_\_\_\_\_ related to the current bond price. |  |
| a) | **negatively** |  |
| b) | positively |  |
| c) | not |  |
| d) | directly |  |
| e) | indirectly |  |
| 56 | The sum of the current yield and the rate of capital gain is called the |  |
| a) | **rate of return.** |  |
| b) | discount yield. |  |
| c) | pertuity yield. |  |
| d) | par value. |  |
| e) | face value. |  |
| 57 | What is the return on a 5 percent coupon bond that initially sells for $1,000 and sells for $1,200 |  |
|  | next year? |  |
| a) | 5 percent |  |
| b) | 10 percent |  |
| c) | -5 percent |  |
| d) | **25 percent** |  |
| e) | -10 percent |  |
| 58 | What is the return on a 5 percent coupon bond that initially sells for $1,000 and sells for $900 next year? |  |
| a) | 5 percent |  |
| b) | 10 percent |  |
| c) | **-5 percent** |  |
| d) | -10 percent |  |
| e) | 25 percent |  |
| 59 | The \_\_\_\_\_\_\_\_ interest rate more accurately reflects the true cost of borrowing. |  |
| a) | nominal |  |
| b) | **real** |  |
| c) | discount |  |
| d) | market |  |
| e) | fixed |  |
| 60 | The risk structure of interest rates is |  |
| a) | the structure of how interest rates move over time. |  |
| b) | the structure of how interest rates increases over time. |  |
| c) | **the relationship among interest rates of different bonds with the same maturity.** |  |
| d) | the relationship among the term to maturity of different bonds. |  |
| e) | the relationship among interest rates on bonds with different maturities. |  |
|  | The risk that interest payments will not be made, or that the face value of a bond is not repaid when a bond matures is |  |
| 61 | interest rate risk. |  |
| b) | inflation risk. |  |
| c) | moral hazard. |  |
| d) | **default risk.** |  |
| e) | liquidity risk |  |
| 62 | Bonds with no default risk are called |  |
| a) | flower bonds. |  |
| b) | no-risk bonds. |  |
| c) | **default-free bonds.** |  |
| d) | zero-risk bonds. |  |
| e) | riskless bonds. |  |
| 63 | Which of the following bonds are considered to be default-risk free? |  |
| a) | Municipal bonds |  |
| b) | Investment-grade bonds |  |
| c) | **U.S. Treasury bonds** |  |
| d) | Junk bonds |  |
| e) | commercial bonds |  |
| 64 | The spread between the interest rates on bonds with default risk and default-free bonds is |  |
|  | called the |  |
| a) | **risk premium.** |  |
| b) | junk margin. |  |
| c) | bond margin. |  |
| d) | default premium. |  |
| e) | spread margin. |  |
| 65 | If the probability of a bond default increases because corporations begin to suffer large losses, then the default risk on corporate bonds will \_\_\_\_\_\_\_\_ and the expected return on these bonds will \_\_\_\_\_\_\_\_, everything else held constant. |  |
| a) | decrease; increase |  |
| b) | decrease; decrease |  |
| c) | increase; increase |  |
| d) | **increase; decrease** |  |
| e) | Increase; not change |  |
| 66 | A bond with default risk will always have a \_\_\_\_\_\_\_\_ risk premium and an increase in its default risk will \_\_\_\_\_\_\_\_ the risk premium. |  |
| a) | **positive; raise** |  |
| b) | positive; lower |  |
| c) | negative; raise |  |
| d) | negative; lower |  |
| e) | constant; raise |  |
| 67 | An increase in the riskiness of corporate bonds will \_\_\_\_\_\_\_\_ the price of corporate bonds and \_\_\_\_\_\_\_\_ the price of Treasury bonds, everything else held constant. |  |
| a) | increase; increase |  |
| b) | reduce; reduce |  |
| c) | **reduce; increase** |  |
| d) | increase; reduce |  |
| e) | change; reduce |  |
| 68 | An increase in the riskiness of corporate bonds will \_\_\_\_\_\_\_\_ the yield on corporate bonds and \_\_\_\_\_\_\_\_ the yield on Treasury securities, everything else held constant. |  |
| a) | increase; increase |  |
| b) | reduce; reduce |  |
| c) | **increase; reduce** |  |
| d) | reduce; increase |  |
| e) | change; increase |  |
| 69 | .  An increase in default risk on corporate bonds \_\_\_\_\_\_\_\_ the demand for these bonds, but \_\_\_\_\_\_\_\_ the demand for default-free bonds, everything else held constant. |  |
| a) | increases; lowers |  |
| b) | **lowers; increases** |  |
| c) | does not change; greatly increases |  |
| d) | moderately lowers; does not change |  |
| e) | greatly increases, does not change |  |
| 70 | As default risk increases, the expected return on corporate bonds \_\_\_\_\_\_\_\_, and the return becomes \_\_\_\_\_\_\_\_ uncertain, everything else held constant. |  |
| a) | increases; less |  |
| b) | increases; more |  |
| c) | decreases; less |  |
| d) | **decreases; more** |  |
| e) | does not change; more |  |
| 71 | As their relative riskiness \_\_\_\_\_\_\_\_, the expected return on corporate bonds \_\_\_\_\_\_\_\_ relative to the expected return on default-free bonds, everything else held constant. |  |
| a) | increases; increases |  |
| b) | **increases; decreases** |  |
| c) | decreases; decreases |  |
| d) | decreases; does not change |  |
| e) | does not change; increases |  |
| 72 | Bonds with relatively high risk of default are called |  |
| a) | Brady bonds. |  |
| b) | **junk bonds.** |  |
| c) | zero coupon bonds. |  |
| d) | investment grade bonds. |  |
| e) | discount bonds. |  |
| 73 | Bonds with relatively low risk of default are called \_\_\_\_\_\_\_\_ securities and have a rating of Baa (or BB and above; bonds with ratings below Baa (or BB have a higher default risk and are called \_\_\_\_\_\_\_\_. |  |
| a) | investment grade; lower grade |  |
| b) | **investment grade; junk bonds** |  |
| c) | high quality; lower grade |  |
| d) | high quality; junk bonds |  |
| e) | junk bonds; high quality |  |
| 74 | Which of the following bonds would have the highest default risk? |  |
| a) | Municipal bonds |  |
| b) | Investment-grade bonds |  |
| c) | U.S. Treasury bonds |  |
| d) | **Junk bonds** |  |
| e) | AAA bonds |  |
| 75 | Risk premiums on corporate bonds tend to \_\_\_\_\_\_\_\_ during business cycle expansions and \_\_\_\_\_\_\_\_ during recessions, everything else held constant. |  |
| a) | increase; increase |  |
| b) | increase; decrease |  |
| c) | **decrease; increase** |  |
| d) | decrease; decrease |  |
| e) | remain constant, increase |  |
| 76 | The collapse of the subprime mortgage market |  |
| a) | did not affect the corporate bond market. |  |
| b) | did not affect the financial system. |  |
| c) | increased the perceived riskiness of Treasury securities. |  |
| d) | reduced the Baa-Aaa spread. |  |
| e) | **increased the Baa-Aaa spread.** |  |
| 77 | An increase in the liquidity of corporate bonds will \_\_\_\_\_\_\_\_ the price of corporate bonds and \_\_\_\_\_\_\_\_ the yield of Treasury bonds, everything else held constant. |  |
| a) | **increase; increase** |  |
| b) | reduce; reduce |  |
| c) | increase; reduce |  |
| d) | reduce; increase |  |
| e) | not change; reduce |  |
| 78 | The risk premium on corporate bonds reflects the fact that corporate bonds have a higher default risk and are \_\_\_\_\_\_\_\_ U.S. Treasury bonds. |  |
| a) | **less liquid than** |  |
| b) | less speculative than |  |
| c) | tax-exempt unlike |  |
| d) | lower-yielding than |  |
| e) | more liquid than |  |
| 79 | Everything else held constant, an increase in marginal tax rates would likely have the effect of \_\_\_\_\_\_\_\_ the demand for municipal bonds, and \_\_\_\_\_\_\_\_ the demand for U.S. government bonds. |  |
| a) | increasing; increasing |  |
| b) | **increasing; decreasing** |  |
| c) | decreasing; increasing |  |
| d) | decreasing; decreasing |  |
| e) | highly increasing; increasing |  |
| 80 | Three factors explain the risk structure of interest rates: |  |
| a) | **liquidity, default risk, and the income tax treatment of a security.** |  |
| b) | maturity, default risk, and the income tax treatment of a security. |  |
| c) | maturity, liquidity, and the income tax treatment of a security. |  |
| d) | maturity, default risk, and the liquidity of a security. |  |
| e) | maturity, premium risk, and the liquidity of a security. |  |
| 81 | The term structure of interest rates is |  |
| a) | the relationship among interest rates of different bonds with the same maturity. |  |
| b) | the structure of how interest rates move over time. |  |
| c) | the relationship among the term to maturity of different bonds. |  |
| d) | **the relationship among interest rates on bonds with different maturities.** |  |
| e) | the structure of how maturity and interest rates changes over time. |  |
| 82 | Typically, yield curves are |  |
| a) | **gently upward sloping.** |  |
| b) | mound shaped. |  |
| c) | flat. |  |
| d) | bowl shaped. |  |
| e) | downward sloping |  |
| 83 | Financial markets: |  |
| a) | include any market in which goods are traded. |  |
| b) | have no oversight by the government. |  |
| c) | only include large markets like the New York Stock Exchange. |  |
| d) | **allow us to buy and sell financial instruments easily.** |  |
| e) | allow to save money. |  |
| 84 | You receive a check for $100 two years from today. The discounted present value of this $100 is: |  |
| a) | $100/(1+i) |  |
| b) | $100\*(1+i) |  |
| c) | **$100/(1+i)2** |  |
| d) | $100\*(1+i)2 |  |
| e) | $100\*(1+i)3 |  |
| 85 | The real interest rate is: |  |
| a) | the nominal interest rate/the CPI. |  |
| b) | the product of the nominal rate and the CPI. |  |
| c) | **the nominal rate minus the expected inflation rate.** |  |
| d) | the nominal rate plus the expected inflation rate. |  |
| e) | the nominal rate minus discount rate. |  |
| 86 | Which of the following provides the greatest incentive to borrow? |  |
| a) | **A low real interest rate** |  |
| b) | A high real interest rate |  |
| c) | A low nominal interest rate |  |
| d) | A high nominal interest rate |  |
| e) | A high discount rate |  |
| 87 | The risk premium on a bond is: |  |
| a) | the difference in interest rates between that bond and a S&P 500 firm bond. |  |
| b) | **the difference in interest rate between that bond and a US Treasury bond.** |  |
| c) | the difference in interest rate between that bond and a bank CD. |  |
| d) | the difference in interest rate between that bond and a municipal bond. |  |
| e) | the difference in interest rate between that bond and a government bond. |  |
| 88 | Yield curves show: |  |
| a) | **the relationship between time to maturity and bond interest rates (yields).** |  |
| b) | he relationship between liquidity and bond interest rates (yields). |  |
| c) | the relationship between bond interest rates (yields) and bond prices. |  |
| d) | the relationship between risk and bond interest rates (yields). |  |
| e) | the relationship between liquidity and bond prices. |  |
| 89 | The expectations theory of the term structure assumes: |  |
| a) | markets for different maturity bonds are completely separate. |  |
| b) | buyers of bonds prefer bonds with shorter maturities. |  |
| c) | **buyers of bonds consider bonds of different maturities to be perfect substitutes.** |  |
| d) | buyers of bonds prefer bonds with longer maturities. |  |
| e) | buyers of bonds prefer bonds with lower risk. |  |
| 90 | What is the present value of an amount FV 6 years in the future at an interest rate of 3%? |  |
| a) | FV × (1.03)6 |  |
| b) | FV/(1.06)3 |  |
| c) | FV × 36 |  |
| d) | **FV/(1.03)6** |  |
| e) | FV\*(1.06)3 |  |
| 91 | Melanie has $456 dollars one year after she deposits into a certificate of deposit with a 4% annual interest rate. How much did she deposit? |  |
| a) | **$438.46** |  |
| b) | $474.24 |  |
| c) | $450.00 |  |
| d) | $426.33 |  |
| e) | $465.00 |  |
| 92 | The essential role of financial markets is: |  |
| a) | Provide a way for the government to finance a budget deficit. |  |
| b) | Provide a method of borrowing. |  |
| c) | **Provide a method of channeling funds between borrowers and savers.** |  |
| d) | Provide a method of saving. |  |
| e) | Provide financial stability. |  |
| 93 | Transaction costs: |  |
| a) | **Are the time and money spent carrying out financial transactions.** |  |
| b) | Are increased with financial intermediaries. |  |
| c) | Are required by law. |  |
| d) | Are the costs of clearing checks. |  |
| e) | Are the costs of borrowing. |  |
| 94 | For a $1000 one year discount bond with a price of $975, the yield to maturity is |  |
| a) | $975/$1000 |  |
| b) | **($1000 – $975)/$975** |  |
| c) | $1000/$975 |  |
| d) | ($1000 – $975)/($1000) |  |
| e) | ($1000 + $975)/$975 |  |
| 95 | Default risk is: |  |
| a) | the chance the issuer will sell more debt. |  |
| b) | the chance the issuer will pay higher interest rate. |  |
| c) | the chance the issuer will retire the debt early. |  |
| d) | the chance the issuing firm will be sold to another firm. |  |
| e) | **the chance the issuer will be unable to make interest payments or repay principal.** |  |
| 96 | Municipal bonds generally have lower interest rates than U.S. Government bonds because: |  |
| a) | they are more liquid. |  |
| b) | they never mature. |  |
| c) | **they are exempt from Federal taxes.** |  |
| d) | they have less risk. |  |
| e) | they do not have default risk. |  |
| 97 | The liquidity premium theory suggests that yield curves should usually be: |  |
| a) | inverted. |  |
| b) | flat. |  |
| c) | up-sloping through year 1, then flat thereafter. |  |
| d) | **up-sloping.** |  |
| e) | down-sloping. |  |
| 98 | The shape of the yield curve is usually: |  |
| a) | downward sloping. |  |
| b) | upward sloping for shorter maturities and downward sloping for longer maturities. |  |
| c) | flat. |  |
| d) | inverted. |  |
| e) | **upward sloping.** |  |
| 99 | Which of the following expresses the future value of a present value (PV) in n years with interest i? |  |
| a) | PV + PV × i |  |
| b) | PV × (1+n)i |  |
| c) | **PV × (1+i)n** |  |
| d) | PV × in |  |
| e) | PV / (1+i)n |  |
| 100 | A lender knows that he will receive $10,000 from the bank one year from now, which includes the interest he will earn. What is the interest rate she is earning if she put $9,500 in the bank today? |  |
| a) | 5.00% |  |
| b) | 6.00% |  |
| c) | 6.52% |  |
| d) | **5.26%** |  |
| e) | 7.00% |  |