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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% |   |