1. When the market rate of return exceeds the coupon rate, a bond will sell at
   - [ ] A. a discount.
   - [x] B. par.
   - [ ] C. face value.
   - [ ] D. a premium.

2. The Limberger Corporation declared a quarterly dividend of $0.10 per share. The ex-dividend date was July 15, the date of record was July 18, and the payment date was July 28. If you had owned 100 shares of the Limberger Corporation and sold them on July 15, then
   - [ ] A. the purchaser would collect $10.00 in dividends, and you would not collect any dividends.
   - [ ] B. neither you nor the purchaser would collect any money in dividends.
   - [ ] C. you would collect $10.00 in dividends, and the purchaser would not collect any dividends.
   - [ ] D. you would collect $5.00 in dividends, and the purchaser would collect $5.00 in dividends.

3. Which of the following will tend to improve a bond's rating?
   I. an improvement in the firm's cash flow
   II. an increase in corporate debt
   III. an increase in net profits
   IV. an increase in net working capital
   - [ ] A. II, III and IV only
   - [ ] B. I, II, III and IV
   - [ ] C. I, III and IV only
   - [ ] D. I, II and III only
4. Tanzlin Manufacturing's common stock has a beta of 1.5. If the expected risk-free return is 2% and the expected return on the market is 14%, what is the expected return on the stock?

- A. 13.5%
- B. 16.8%
- C. 21.0%
- D. 20.0%

5. When the economy is moving toward a recession, the yield on riskier bonds will tend to

- A. stagnate.
- B. fall.
- C. become volatile.
- D. rise.

6. If you hold a portfolio made up of the following stocks:

<table>
<thead>
<tr>
<th>Stock</th>
<th>Investment Value</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock A</td>
<td>$2,000</td>
<td>1.5</td>
</tr>
<tr>
<td>Stock B</td>
<td>$5,000</td>
<td>1.2</td>
</tr>
<tr>
<td>Stock C</td>
<td>$3,000</td>
<td>.8</td>
</tr>
</tbody>
</table>

What is the beta of the portfolio?

- A. 1.32
- B. 1.14
- C. 1.17
- D. Can't be determined from information given
7. How many years will it take for an initial investment of $200 to grow to $544 if it is invested today at 8% compounded annually?

- A. 10 years
- B. 13 years
- C. 11 years
- D. 8 years

8. Because common shareholders are entitled to the profits that remain after all of a corporation's other obligations have been met, common shareholders are known as

- A. residual owners.
- B. temporary owners.
- C. debt owners.
- D. owners of last resort.

9. According to the expectations hypothesis, investors' expectations of decreasing inflation will result in

- A. a flat yield curve.
- B. a humped yield curve.
- C. an upward – sloping yield curve.
- D. a downward – sloping yield curve.

10. Dawn Swift discovered that 20 years ago, the average tuition for one year at an Ivy League school was $4,500. Today, the average cost is $29,000. What is the growth rate in tuition cost over this 20 – year period? Round off to the nearest 0.1%.

- A. 10.6%
- B. 4.2%
- C. 9.8%
- D. 15.5%
11. If you purchased a share of Mico.com stock on March 1, 1993 for $45 and you sold the stock at $168 on February 28, 1998, what was your annual rate of return on the stock?

   ○ A. 20%
   ○ B. 30%
   ○ C. 50%
   ○ D. 83%
   ○ E. 75%

12. At 8%, compounded annually, how long will it take $750 to double?

   ○ A. 8 years
   ○ B. 12 years
   ○ C. 4 years
   ○ D. 6 years
   ○ E. 9 years

13. The present value of a perpetuity decreases when the ________ decreases.

   ○ A. number of investment periods
   ○ B. annual discount rate
   ○ C. perpetuity payment
   ○ D. both B and C

14. What is the required rate of return on a common stock that is expected to pay a $0.75 annual dividend next year if dividends are expected to grow at 2 percent annually and the current stock price is $8.59?

   ○ A. 8.91%
   ○ B. 10.73%
   ○ C. 11.38%
   ○ D. 8.73%
15. Francis Peabody just won the $89,000,000 California State Lottery. The lottery offers the winner a choice of receiving the winnings in a lump sum or in 26 equal annual installments to be made at the beginning of each year. Assume that funds would be invested at 7.65%. Francis is trying to decide whether to take the lump sum or the annual installments. What is the amount of the lump sum that would be exactly equal to the present value of the annual installments? Round off to the nearest $1.

- A. $13,092,576
- B. $41,083,128
- C. $89,000,000
- D. $38,163,612

16. Lindor Inc.'s $100 par value preferred stock pays a dividend fixed at 8% of par. To earn 12% on an investment in this stock, you need to purchase the shares at a per share price of

- A. $96.00.
- B. $9.60.
- C. $150.00.
- D. $66.67.

17. When using the constant – growth dividend valuation model, which of the following will lower the value of the stock?

- A. An increase in the growth rate of the dividends.
- B. An increase in the dividend payout ratio.
- C. An increase in the required rate of return.
- D. A decrease in the required rate of return.
18. Ingrid Birdman can earn a nominal annual rate of return of 12%, compounded semiannually. If Ingrid made 40 consecutive semiannual deposits of $500 each, with the first deposit being made today, how much will she accumulate at the end of Year 20? Round off to the nearest $1.

- **A.** $64,132
- **B.** $82,024
- **C.** $52,821
- **D.** $57,901

19. The Franklin Company issued a 6% bond three years ago at par value. The market interest rate on comparable bonds today is 5%. The Franklin Company bond currently pays ______ a year in interest and the bond sells at a _______.

- **A.** $60; premium
- **B.** $50; premium
- **C.** $50; discount
- **D.** $60; discount

20. Engines, Inc. declares a 2 – for – 5 stock split. The stock currently sells for $3 a share. A shareholder who owned 100 shares of stock prior to the split will now own

- **A.** 250 shares valued at about $1.20 a share.
- **B.** 40 shares valued at about $7.50 a share.
- **C.** 250 shares valued at about $7.50 a share.
- **D.** 40 shares valued at about $1.20 a share.

21. An increase in the market rate of return on an outstanding bond will

- **A.** decrease the coupon rate.
- **B.** increase the coupon rate.
- **C.** decrease the bond price.
- **D.** increase the bond price.
22. Since each share of common stock represents ownership in a company, shares of common stock are often referred to as

- A. unit - cost securities.
- B. illiquid investments.
- C. equity securities.
- D. fixed - income securities.

23. Bonds with one of the top four ratings (Aaa through Baa, or AAA through BBB) are designated as

- A. split bonds.
- B. high - yield bonds.
- C. illiquid bonds.
- D. investment grade bonds.

24. Which one of the following statements is true about a $1,000, 6% annual coupon bond that is selling for $1,012?

- A. The current yield is less than 6%.
- B. The yield - to - maturity is greater than 6%.
- C. The yield - to - maturity is 6%.
- D. The current yield is 6%.

25. What is the current price of a 9%, $1,000 annual coupon bond that has eighteen years to maturity and a yield to maturity of 9.631%?

- A. $898
- B. $935
- C. $942
- D. $947
26. The common stock of Jennifer's Furniture Outlet is currently selling at $32.60 a share. The company adheres to a 60% dividend payout ratio and has a P/E ratio of 19. There are 21,000 shares of stock outstanding. What is the amount of the annual net income for the firm?

- **A.** $48,327
- **B.** $21,619
- **C.** $36,032
- **D.** $60,053

27. What is the yield-to-maturity of a $1,000, 7% semi-annual coupon bond that matures in 2 years and currently sells for $997.07?

- **A.** 6.87%
- **B.** 7.31%
- **C.** 7.16%
- **D.** 7.04%

28. A bond matures in 30 years, has a 20 year duration and a yield to maturity of 9.32%. The change in the level of the market interest rate is 0.47%. The modified duration is ________ and the percentage change in price is ________.

- **A.** 18.29 years, 8.6%
- **B.** 9.4 years, −.47%
- **C.** 14. years, 4.7%
- **D.** 18.29 years, − 8.6%
29. George and Laura will be retiring in four years and would like to buy a lake house. They estimate that they will need $550,000 at the end of four years to buy this house. They want to make four equal annual payments into an account at the end of each year. If they can earn 8% on their money, compounded annually, over the next four years, how much must they invest at the end of each year for the next four years to have accumulated $550,000 by retirement?

- [ ] A. $131,821
- [ ] B. $122,056
- [ ] C. $137,500
- [ ] D. $113,015

30. You are thinking of adding one of two investments to an already well diversified portfolio.

<table>
<thead>
<tr>
<th>Security A</th>
<th>Security B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expected return</strong> = 12%</td>
<td><strong>Expected return</strong> = 12%</td>
</tr>
<tr>
<td><strong>Standard deviation of returns</strong> = 20.9%</td>
<td><strong>Standard deviation of returns</strong> = 10.1%</td>
</tr>
<tr>
<td><strong>Beta</strong> = .8</td>
<td><strong>Beta</strong> = 2</td>
</tr>
</tbody>
</table>

If you are a risk-averse investor

- [ ] A. security B is the better choice.
- [ ] B. security A is the better choice.
- [ ] C. either security would be acceptable.
- [ ] D. cannot be determined with information given.

31. Winifred, Inc. paid $1.64 as an annual dividend per share last year. The company is expected to increase their annual dividends by 3% each year. How much should you pay to purchase one share of this stock if you require a 9% rate of return on this investment?

- [ ] A. $18.22
- [ ] B. $28.15
- [ ] C. $27.33
- [ ] D. $18.77
32. The beta of the market is
   
   O A. 1.0.
   O B. −1.0.
   O C. 0.0.
   O D. undefined.

33. A friend plans to buy a big-screen TV/entertainment system and can afford to set aside $1,320 toward the purchase today. If your friend can earn 5.0%, compounded yearly, how much can your friend spend in four years on the purchase? Round off to the nearest $1.

   O A. $1,764
   O B. $1,604
   O C. $1,283
   O D. $1,444

34. When compared to the yield curve for Treasury securities, the yield curve for corporate securities should

   O A. be nearly identical.
   O B. be similar in shape but lower.
   O C. be similar in shape but higher.
   O D. slope in the opposite direction.

35. Which of the following will lead to an increase in earnings per share?

   O A. a decrease in the number of shares if return on equity stays the same.
   O B. an increase in return on equity if book value per share stays the same.
   O C. an increase in the P/E ratio.
   O D. an increase in the dividend payout ratio.
36. You are considering investing in a portfolio consisting of 40% Electric General and 60% Buckstar. If the expected rate of return on Electric General is 16% and the expected return on Buckstar is 9%, what is the expected return on the portfolio?

- A. 11.80%
- B. 12.50%
- C. 10.00%
- D. 13.20%

37. An investment is expected to yield $300 in three years, $500 in five years, and $300 in seven years. What is the present value of this investment if our opportunity rate is 5%?

- A. $735
- B. $900
- C. $885
- D. $865

38. What is the value on 1/1/14 of the following cash flows? Use a 10% discount rate, and round your answer to the nearest $1.00.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount of Cash</th>
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<tbody>
<tr>
<td>1/1/16</td>
<td>$100</td>
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<tr>
<td>1/1/17</td>
<td>$200</td>
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<td>1/1/18</td>
<td>$300</td>
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<tr>
<td>1/1/19</td>
<td>$400</td>
</tr>
<tr>
<td>1/1/20</td>
<td>$500</td>
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</table>

- A. $968
- B. $1,065
- C. $880
- D. $1,500
39. Nathan bought a zero coupon bond in 2003 for $485.19. In 2013 he redeemed it for $1,000. His internal rate of return on this investment was

- A. 20.6%
- B. 7.5%
- C. 0.00%
- D. 206.1%

40. If you want to have $1,700 in seven years, how much money must you put in a savings account today? Assume that the savings account pays 6% and it is compounded quarterly (round to the nearest $10).

- A. $1,120
- B. $1,130
- C. $1,110
- D. $1,140

41. What is the present value of an annuity of $12 received at the end of each year for seven years? Assume a discount rate of 11%. The first payment will be received one year from today (round to the nearest $1).

- A. $25
- B. $118
- C. $57
- D. $40

42. Which one of the following bonds would have a duration that exactly matches its time to maturity?

- A. zero-coupon bond
- B. discount bond
- C. U.S. Treasury bond
- D. premium bond
43. Currently, the expected return on the market is 12.5% and the required rate of return for Alpha, Inc. is 12.5%. Therefore, Alpha's beta must be

☐ A. greater than 1.0.
☐ B. less than 1.0.
☐ C. equal to 1.0.
☐ D. unknown based on the information provided.

44. Ashley purchased a stock at a price of $27 a share. She received quarterly dividends of $0.75 per share. After one year, Ashley sold the stock at a price of $29.25 a share. What is her percentage total return on this investment?

☐ A. 19.4%
☐ B. 11.1%
☐ C. 10.5%
☐ D. 17.9%

45. Global Warning's EPS for the current year is $2.75 and its current P/E ratio is 50. You have forecasted that EPS will grow by 10% but the P/E ratio will fall to 40. What do you expect the price of a share of GW's stock to be at the end of next year?

☐ A. $121
☐ B. $151.25
☐ C. $137.50
☐ D. $110

46. What is the coupon rate of an annual bond that has a yield to maturity of 8.5%, a current price of $942.32, a par value of $1,000 and matures in thirteen years?

☐ A. 7.75%
☐ B. 8.33%
☐ C. 7.67%
☐ D. 8.50%
47. A retirement plan guarantees to pay you or your estate a fixed amount for 20 years. At the time of retirement, you will have $31,360 to your credit in the plan. The plan anticipates earning 8% interest annually over the period you receive benefits. How much will your annual benefits be, assuming the first payment occurs one year from your retirement date?

   A. $6,272
   B. $682
   C. $3,194
   D. $2,000

48. Siebling Manufacturing Company's common stock has a beta of .8. If the expected risk-free return is 2% and the market offers a premium of 8% over the risk-free rate, what is the expected return on Siebling's common stock?

   A. 8.4%
   B. 14.4%
   C. 7.8%
   D. 13.4%

49. A $1,000, 7% annual coupon bond matures in three years. The bond is currently priced at $974.23 and has a YTM of 8.0%. What is the Macaulay duration?

   A. 1.95 years
   B. 3.00 years
   C. 2.60 years
   D. 2.81 years
50. You are considering the purchase of XYZ Company's common stock which will pay a $1.00 per share dividend one year from the date of purchase. The dividend is expected to grow at the rate of 4% per year. If the appropriate discount rate for this investment is 14%, what is the price of one share of this stock?

☐ A. $10.00  
☐ B. $25.00  
☐ C. $7.14  
☐ D. Cannot be determined without maturity date
1. A
2. C
3. C
4. D
5. D
6. B
7. B
8. A
9. D
10. C
11. B
12. E
13. C
14. B
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43. C

44. A

45. A

46. A

47. C

48. A

49. D

50. A