1. You are going to pay $800 into an account at the beginning of each of 20 years. The account will then be left to compound for an additional 20 years. At the end of the 41st year you will begin receiving a perpetuity from the account. If the account pays 14%, how much will you receive each year from the perpetuity (round to nearest $1,000)?

   - A. $170,000
   - B. $150,000
   - C. $160,000
   - D. $140,000

2. All else constant, the present value of an investment will increase if

   - A. the investment is discounted at a higher interest rate.
   - B. the investment is discounted at a lower interest rate.
   - C. the investment is discounted for fewer years.
   - D. both B and C.

3. You are considering two investments. Investment A yields 10% compounded quarterly. Investment B yields r% compounded semiannually. Both investments have equal annual yields. Find r.

   - A. 19.875%
   - B. 10.38%
   - C. 10.125%
   - D. 10%
4. Three years from now, Barbara Waters will purchase a laptop computer that will cost $2,250. Assume that Barbara can earn 6.25% (compounded monthly) on her money. How much should she set aside today for the purchase? Round off to the nearest $1.

- **A.** $1,866
- **B.** $1,250
- **C.** $3,775
- **D.** $900

5. People tend to

- **A.** be underconfident in their judgment of investments.
- **B.** overestimate the effects of random chance.
- **C.** look at the entire situation when analyzing an individual security.
- **D.** ignore information that contradicts their current beliefs.

6. What is the present value of $1,000 to be received 10 years from today? Assume that the investment pays 8.5% and it is compounded monthly (round to the nearest $1).

- **A.** $429
- **B.** $3,106
- **C.** $893
- **D.** $833

7. If you put $700 in a savings account with a 10% nominal rate of interest compounded monthly, what will the investment be worth in 21 months (round to the nearest dollar)?

- **A.** $833
- **B.** $827
- **C.** $1,176
- **D.** $828
8. You want to travel to Europe to visit relatives when you graduate from college three years from now. The trip is expected to cost a total of $10,000. Your parents have deposited $5,000 for you in a CD paying 6% interest annually, maturing three years from now. Aunt Hilda has agreed to finance the balance. If you are going to put Aunt Hilda's gift in an investment earning 10% annually over the next three years, how much must she deposit now so you can visit your relatives in three years?

☐ A. $3,801
☐ B. $3,039
☐ C. $3,345
☐ D. $3,757

9. At what rate must $400 be compounded annually for it to grow to $716.40 in 10 years?

☐ A. 6%
☐ B. 5%
☐ C. 7%
☐ D. 8%

10. Assuming two investments have equal lives, a high discount rate tends to favor

☐ A. the investment with large cash flow early.
☐ B. the investment with even cash flow.
☐ C. the investment with large cash flow late.
☐ D. neither investment since they have equal lives.

11. The most important lesson investors can learn from behavioral finance is

☐ A. to have confidence in their instincts and first impressions.
☐ B. how to avoid letting their emotions and biases affect their investment decisions.
☐ C. to have the humility to let professionals manage their investments.
☐ D. to understand psychological factors influencing long-term price movement.
12. California Investors recently advertised the following claim: Invest your money with us at 21%, compounded annually, and we guarantee to double your money sooner than you imagine. Ignoring taxes, how long would it take to double your money at a nominal rate of 21%, compounded annually? Round off to the nearest year.

   - A. Approximately four years
   - B. Approximately two years
   - C. Approximately six years
   - D. Approximately eight years

13. If you have $20,000 in an account earning 8% annually, what constant amount could you withdraw each year and have nothing remaining at the end of five years?

   - A. $3,525.62
   - B. $2,465.78
   - C. $3,408.88
   - D. $5,008.76

14. What is the annual compounded interest rate of an investment with a stated interest rate of 6% compounded quarterly for seven years (round to the nearest .1%)?

   - A. 51.7%
   - B. 6.1%
   - C. 6.7%
   - D. 10.9%
15. What is the present value of an annuity of $27 received at the beginning of each year for the next six years? The first payment will be received today, and the discount rate is 10% (round to nearest $10).

- [ ] A. $130
- [ ] B. $110
- [ ] C. $120
- [ ] D. $100

16. You bought a painting 10 years ago as an investment. You originally paid $85,000 for it. If you sold it for $484,050, what was your annual return on investment?

- [ ] A. 12.8%
- [ ] B. 19%
- [ ] C. 4.7%
- [ ] D. 47%

17. A perpetuity will grow at the rate of 5% per year. One year from the date of purchase, it will pay $50,000. If the appropriate discount rate is 10%, what is the value of the perpetuity?

- [ ] A. $1,000,000
- [ ] B. $1,050,000
- [ ] C. $500,000
- [ ] D. $5,000,000
18. Charlie Stone wants to retire in 30 years, and he wants to have an annuity of $1,000 a year for 20 years after retirement. Charlie wants to receive the first annuity payment at the end of the 30th year. Using an interest rate of 10%, how much must Charlie invest today in order to have his retirement annuity (round to the nearest $10)?

- A. $490
- B. $540
- C. $570
- D. $500

19. Gina Dare, who wants to be a millionaire, plans to retire at the end of 40 years. Gina's plan is to invest her money by depositing into an IRA at the end of every year. What is the amount that she needs to deposit annually in order to accumulate $1,000,000? Assume that the account will earn an annual rate of 11.5%. Round off to the nearest $1.

- A. $1,497
- B. $75
- C. $5,281
- D. $3,622

20. The future value of a single sum:

- A. increases as the compound rate decreases.
- B. decreases as the compound rate increases.
- C. increases as the compound rate increases.
- D. increases as the number of compound periods decreases.
21. Harry just bought a new four-wheel drive Jeep Cherokee for his lumber business. The price of the vehicle was $35,000, of which he made a $5,000 down payment and took out an amortized loan for the rest. His local bank made the loan at 12% interest for five years. He is to pay back the principal and interest in five equal annual installments beginning one year from now. Determine the amount of Harry’s annual payment.

○ A. $8,322
○ B. $9,709
○ C. $9,600
○ D. $6,720

22. If you invest $750 every six months at 8% compounded semi-annually, how much would you accumulate at the end of 10 years?

○ A. $22,334
○ B. $21,731
○ C. $10,065
○ D. $10,193

23. When comparing annuity due to ordinary annuities, annuity due annuities will have higher

○ A. future values.
○ B. annuity payments.
○ C. present values.
○ D. both A and C.
○ E. all of the above.
24. Your company has received a $50,000 loan from an industrial finance company. The annual payments are $6,202.70. If the company is paying 9% interest per year, how many loan payments must the company make?

- A. 19
- B. 15
- C. 13
- D. 12

25. Stephen's grandmother deposited $100 in an investment account for him when he was born, 25 years ago. The account is now worth $1,500. What was the average rate of return on the account?

- A. 16.67%
- B. 15.00%
- C. 11.44%
- D. 6.00%

26. An increase in _______ will decrease present value.

- A. the number of periods
- B. the original amount invested
- C. the discount rate per period
- D. both A and C

27. The tendency to hold onto losing stocks in the hope that they will recoup is called

- B. loss aversion.
- C. representativeness.
- D. narrow framing.
28. You have just purchased a share of preferred stock for $50.00. The preferred stock pays an annual dividend of $5.50 per share forever. What is the rate of return on your investment?

○ A. .220
○ B. .055
○ C. .110
○ D. .010

29. A commercial bank will loan you $7,500 for two years to buy a car. The loan must be repaid in 24 equal monthly payments. The annual interest rate on the loan is 12% of the unpaid balance. What is the amount of the monthly payments?

○ A. $353.05
○ B. $282.43
○ C. $369.82
○ D. $390.52

30. On a given trading day, 700 stocks advanced and 1,200 stocks declined. The volume of declining declining stocks was 280 million while the volume of advancing stocks was 530 million. What is the TRIN value for the day?

○ A. 3.24
○ B. 1.10
○ C. 0.91
○ D. 0.31

31. The present value of a single future sum

○ A. depends upon the number of discount periods.
○ B. increases as the discount rate increases.
○ C. increases as the number of discount periods increases.
○ D. is generally larger than the future sum.
32. The present value of a single sum

- A. increases as the number of discount periods increases.
- B. increases as the discount rate increases.
- C. decreases as the discount rate decreases.
- D. increases as the discount rate decreases.
- E. none of the above.

33. If you put $600 in a savings account that yields an 8% rate of interest compounded weekly, what will the investment be worth in 37 weeks (round to the nearest dollar)?

- A. $648
- B. $635
- C. $634
- D. $645

34. As time increases for an amortized loan, the _______ decreases.

- A. interest paid per payment
- B. principal paid per payment
- C. the outstanding loan balance
- D. both A and C

35. The confidence index indicates a strong stock market when the

- A. ratio of the average yield on high – grade corporate bonds to the average yield on low – grade corporate bonds rises.
- B. ratio between the average yield on S&P 500 stocks to the average yield on high – grade corporate bonds rises.
- C. demand for bonds declines relative to the demand for equity securities.
- D. consumer confidence index rises above its long – term trend.
36. The tendency of investors to blame others for their failures and take personal credit for their successes is referred to as

☐ A. representativeness.
☐ B. biased self- attribution.
☐ C. loss aversion.
☐ D. narrow framing.

37. Michael Bilkman has an opportunity to buy a perpetuity that pays $24,350 annually. His required rate of return on this investment is 14.25%. At what price would Michael be indifferent to buying or not buying the investment? Round off to the nearest $1.

☐ A. $121,709
☐ B. $170,877
☐ C. $83,470
☐ D. $95,621

38. Which of the following provides the greatest annual interest?

☐ A. 9% compounded quarterly
☐ B. 8.5% compounded daily
☐ C. 9.5% compounded monthly
☐ D. 10% compounded annually

39. Shorty Jones wants to buy a one- way bus ticket to Mule – Snort, Pennsylvania. The ticket costs $142, but Mr. Jones has only $80. If Shorty puts the money in an account that pays 9% interest compounded monthly, how many months must Shorty wait until he has $142 (round to the nearest month)?

☐ A. 79 months
☐ B. 73 months
☐ C. 75 months
☐ D. 77 months
40. At 8% compounded annually, how long will it take $750 to double?

- A. 9 years
- B. 48 months
- C. 12 years
- D. 6.5 years
1. C

2. D

3. C

4. A

5. D

6. A

7. A

8. B

9. A

10. A

11. B

12. A

13. D
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>14.</td>
<td>B</td>
</tr>
<tr>
<td>15.</td>
<td>A</td>
</tr>
<tr>
<td>16.</td>
<td>B</td>
</tr>
<tr>
<td>17.</td>
<td>A</td>
</tr>
<tr>
<td>18.</td>
<td>B</td>
</tr>
<tr>
<td>19.</td>
<td>A</td>
</tr>
<tr>
<td>20.</td>
<td>C</td>
</tr>
<tr>
<td>21.</td>
<td>A</td>
</tr>
<tr>
<td>22.</td>
<td>A</td>
</tr>
<tr>
<td>23.</td>
<td>D</td>
</tr>
<tr>
<td>24.</td>
<td>B</td>
</tr>
<tr>
<td>25.</td>
<td>C</td>
</tr>
<tr>
<td>26.</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>27.</td>
<td>B</td>
</tr>
<tr>
<td>28.</td>
<td>C</td>
</tr>
<tr>
<td>29.</td>
<td>A</td>
</tr>
<tr>
<td>30.</td>
<td>D</td>
</tr>
<tr>
<td>31.</td>
<td>A</td>
</tr>
<tr>
<td>32.</td>
<td>D</td>
</tr>
<tr>
<td>33.</td>
<td>B</td>
</tr>
<tr>
<td>34.</td>
<td>D</td>
</tr>
<tr>
<td>35.</td>
<td>A</td>
</tr>
<tr>
<td>36.</td>
<td>B</td>
</tr>
<tr>
<td>37.</td>
<td>B</td>
</tr>
<tr>
<td>38.</td>
<td>D</td>
</tr>
<tr>
<td>39.</td>
<td>D</td>
</tr>
</tbody>
</table>
40. A