Fin630 Final Term 6 Papers

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Paper 1

FINALTERM EXAMINATION
Spring 2009
FIN630- Investment Analysis & Portfolio Management (Session - 2)

Marks: 81

Question No: 1 (Marks: 1) - Please choose one
Shares of McDonald Corporation are an example of a (n):
Standardized financial instrument
Non-standardized financial instrument since their prices can differ over time
Standardized financial liability instrument
Open-end investment
(Q# 6)http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter3/quiz_1.html
Question No: 2 (Marks: 1) - Please choose one
Which of the following includes fixed income securities?
Bonds
Shares
Derivatives
Options
(lesson #1 slide)Fixed Income Securities: e.g. bonds, preferred stock
Question No: 3 (Marks: 1) - Please choose one
Companies that have capitalization amounts of less than $500 million are known as _____.
Small cap companies
Mid cap companies
Growth companies
Large cap companies
(lesson #6 slide) Small-cap stocks : A firm with capitalization less than $500 million.
Question No: 4 (Marks: 1) - Please choose one
In bar chart, which color indicates share prices are going down?
Blue
Black
White
Red
(lesson # 7 slide) Blue color indicates market or share price is going up.
Red color indicates market or share price is going down

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Question No: 5 (Marks: 1) - Please choose one
What will be the resulting figure,when gross profit is divided by net sales?
Gross margin
Operating margin
Net margin
Profit margin
(lesson # 12 slide) Gross Margin is the resulting percentage when Gross Profit is divided by Net Sales.
Gross Margin = Gross Profit/Net Sales
Question No: 6 (Marks: 1) - Please choose one
In bottom-up approach of fundamental analysis, investors begin their analysis with:
Industry
Economy
Market
Company
(page 90)With the bottom-up approach, investors focus directly on a company's basics, or fundamentals. Analysis of such information as the company's products, its competitive position, and its financial status leads to an estimate of the company's earnings potential and, ultimately, its value in the, market.
Question No: 7 (Marks: 1) - Please choose one
Which of the following is **EXCLUDED** from Porter's competitive factors?
Substitute products or services
Changes in the economy
Bargaining power of buyers
Rivalry between existing competitors
Question No: 8 (Marks: 1) - Please choose one
Which of the following is defined as the gradual loss in value of equipment and other tangible assets over the course of its useful life?
Appreciation
Depreciation
Revaluation
Amortization
Depreciation *is the gradual loss in value of equipment and other tangible assets over the course of its useful life.*
http://nptel.iitm.ac.in/courses/IIT-MADRAS/Management_Science_II/Pdf/2_2.pdf
Question No: 9 (Marks: 1) - Please choose one
On which of the following financial statements, revenues and expenses can be found?
Balance sheet
Income statement
Statement of cash flows
Statement of changes in equity
http://nptel.iitm.ac.in/courses/IIT-MADRAS/Management_Science_II/Pdf/2_2.pdf
Income statement: prepared from the revenue, expenses, gains, and losses.
http://www.netmba.com/accounting/fin/process/
Question No: 10 (Marks: 1) - Please choose one
Which of the following is an example of brokerage fee charged by a stockbroker?
Margin profit
Insurance premium
Transaction cost
Capital expenditure

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(Q# 13) http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter3/quiz_1.html

Question No: 11 (Marks: 1) - Please choose one

Technical analysis is **NOT** applicable in which form of efficient market hypothesis?

Weak form efficiency

Semi-strong form efficiency

Strong-form efficiency

Weak and strong form of efficiency

(Lesson # 23 slide # 23) Technical analysis: Not valuable if the weak form holds.

- **Fundamental analysis of intrinsic value.**
  - **Not valuable if semi-strong form holds.**
  - **Experience average results.**

Question No: 12 (Marks: 1) - Please choose one

Which of the following suggests that people express a different degree of emotion towards gains than towards losses?

Prospect theory

Illusion of control

Anchoring

Loss aversion

Prospect theory suggests people express a different degree of emotion towards gains than towards losses. Individuals are more stressed by prospective losses than they are happy from equal gains.

http://www.investopedia.com/articles/05/032905.asp#axzz1OrPt4cld

Question No: 13 (Marks: 1) - Please choose one

LSE 25 index was last reconstituted on_____ in line with regular review policy.

20th December, 2002

1st July, 2006

25th July, 2007

1st July, 2008

(Lesson # 25 , Slide # 25)

- LSE launched a new 25-Index on December 20, 2002, which replaced the 101-Index.The Index has a Base Figure of 1000. (The Index closed at 5442.69 on 24th April, 2006).
- LSE 25-Index includes the top 25 traded companies at LSE and captures 53% of the market capitalization and 98% of the total trading volume of LSE.
- **The Index was last reconstituted on July 1st 2006, in line with the regular review policy.**

Question No: 14 (Marks: 1) - Please choose one

Which of the following is considered to be a characteristic of an equity security?

Fixed income

Debt

Price

Ownership

An equity security is described as a security representing an ownership interest such as common, preferred, or other capital stock.

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http://www.uamont.edu/facultyweb/gulledge/Intermediate_III/Questions/Ch17%20Questions.pdf

Question No: 15 (Marks: 1) - Please choose one

Which of the following statement is **TRUE** about yield to maturity?

Yield to maturity is inversely related to bond price

Yield to maturity is always less than the yield to call

Yield to maturity will be less than the current yield

Yield to maturity tends to fall with a rise in duration

The yield to maturity is inversely related to the bond price. ***Bond prices and market interest rates move in opposite directions***. Why? As interest rates rise, new bonds will pay higher coupon rates than existing bonds. The prices of existing bonds fall in the secondary market, so the yield to maturity rises. ***This negative relationship between interest rate and value is true for all debt securities, not just coupon bonds.***

http://www.oswego.edu/~edunne/340ch6part1.htm

Question No: 16 (Marks: 1) - Please choose one

The yield to maturity is equal to the realized compound return if all coupon interest payments:

Are not reinvested

Are reinvested at the market rate

Are reinvested at the bond's coupon rate

Are reinvested at the bond's yield to maturity

Q# 14) http://highered.mcgraw-hill.com/sites/007338240x/student_view0/chapter10/multiple_choice_quiz.html

Question No: 17 (Marks: 1) - Please choose one

Which of the following measures the sensitivity of an asset's price to interest rate movements, expressed as a number of years?

Duration

Yield to maturity

Convexity

Immunization

Bond duration — In finance, the duration of a financial asset measures the sensitivity of the asset s price to interest rate movements, expressed as a number of years.

http://universalium.academic.ru/83867/bond_immunization

Question No: 18 (Marks: 1) - Please choose one

Which of the following statement is **FALSE** regarding bond duration?

Duration is shorter than maturity for all bonds except zero coupon bonds

Duration is equal to maturity for zero coupon bonds

Duration is directly related to coupon yield

Duration is measured in years

Duration is measured in years; however, do not confuse it with a bond's maturity. For all bonds, duration is shorter than maturity except zero coupon bonds, whose duration is equal to maturity. This is because all cash flows are received at maturity.

Market Valuations and Duration - TreasuryDirect

Question No: 19 (Marks: 1) - Please choose one

Which of the following statement is **TRUE** about duration of a bond?

It is less than maturity for bonds paying coupon interest

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It is directly related to coupon yield
It decreases with maturity
It is greater than maturity for zero coupon bonds
Question No: 20 (Marks: 1) - Please choose one
Which of the following statement is **FALSE** regarding bond duration?
Bond duration is inversely related to coupon rate
Duration of a zero-coupon bond equals its time to maturity
Holding maturity constant, a bond s duration is higher when the coupon rate is lower
Duration is longer than maturity for all bonds except zero coupon bonds
Duration is measured in years; however, do not confuse it with a bond's maturity. For all bonds, duration is shorter than maturity except zero coupon bonds, whose duration is equal to maturity. This is because all cash flows are received at maturity.
Market Valuations and Duration - TreasuryDirect
Question No: 21 (Marks: 1) - Please choose one
Which of the following is known as speculative bond?
Government bond
Municipal bond
Sovereign bond
Junk bond
http://www.investopedia.com/terms/j/junkbond.asp
Question No: 22 (Marks: 1) - Please choose one
Which of the following is referred to as risk-free bond?
Government bond
Municipal bond
Sovereign bond
Junk bond
(page 798)
http://books.google.com/books?id=yeM6viq7fAYC&pg=PA798&dq=Government+bond+is+referred+to+as+risk-free+bond&hl=en&ei=MF_yTbXWCMPBtAa4uo2IBw&sa=X&oi=book_result&ct=book-thumbnail&resnum=3&ved=0CDYQ6wEwAg#v=onepage&q=Government%20bond%20is%20referred%20to%20as%20risk-free%20bond&f=false
Question No: 23 (Marks: 1) - Please choose one
Diversification is the only way to protect investors from:
Market risk
Nonsystematic risk
Systematic risk
General risk
Ref: Diversification is the only way to protect a portfolio from unsystematic risk.
Question No: 24 (Marks: 1) - Please choose one
The excess return that an individual stock or the overall stock market provides over a risk-free rate is known as _____.
Equity risk premium
Bond horizon premium
Share premium
Liquidity premium
(page 163)

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http://books.google.com/books?id=d_LhBol2674C&pg=PA163&dq=The+excess+return+that+an+individual+stock+or+the+overall+stock+market+provides+over+a+risk-free+rate+is+known+as&hl=en&ei=YWHyTdDFCcj3sgb14smlBw&sa=X&oi=book_result&ct=book-thumbnail&resnum=1&ved=0CCsQ6wEwAA#v=onepage&q=The%20excess%20return%20that%20an%20individual%20stock%20or%20the%20overall%20stock%20market%20provides%20over%20a%20risk-free%20rate%20is%20known%20as&f=false

Question No: 25 (Marks: 1) - Please choose one

Systematic risk contains all of the following components **EXCEPT**:

Purchasing power risk

Market risk

Business risk

Interest rate risk

(page 21) http://www.scribd.com/doc/54124918/2/Chapter-2?query=tematic+risk+has+all+the+following+components+EXCE

Question No: 26 (Marks: 1) - Please choose one

Which of the following bond redeems the principal amount at maturity and pays no periodic income?

Municipal bond

Corporate bond

Junk bond

Zero coupon bond

(page 172) A zero coupon bond has a specific maturity date when it returns the bond principal, but it pays no periodic income

Question No: 27 (Marks: 1) - Please choose one

Which of the following measures deviation of returns from the mean?

Variance

Standard deviation

Geometric mean

Correlation coefficient

(page 81)

http://books.google.com/books?id=3v_qySWNHxIC&pg=PA81&dq=Which+of+the+following+measures+deviation+of+returns+from+the+mean?&hl=en&ei=yWryTaL-IMrOrQfKwPnCBg&sa=X&oi=book_result&ct=result&resnum=2&ved=0CC8Q6AEwAQ#v=onepage&q=Volatility%20is%20measured%20by%20the%20standard%20deviation%20of%20a%20return%20distribution.%20The%20standard%20deviation%20is%20the%20square%20root%20of%20the%20variance%2C%20which%20is%20the%20expected%20squared%20deviation%20of%20return%20from%20the%20mean.%20Analyzing%20one%20set%20of%20returns%20without%20...&f=false

Question No: 28 (Marks: 1) - Please choose one

Which of the following statement is **FALSE**?

Each portfolio asset has a weight which represents the percent of the total portfolio value

Portfolio risk is not a weighted average of the risk of individual securities in the portfolio

Portfolio risk is measured by variance or standard deviation of the portfolio's return

None of the given options

– Each portfolio asset has a weight, w, which represents the percent of the total portfolio value

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– Portfolio risk is not a weighted average of the risk of the individual securities in the portfolio
Portfolio Risk

Portfolio risk not simply the sum of individual security risks - Emphasis on the risk of the entire portfolio and not on risk of individual securities in the portfolio - Individual stocks are risky only if they add risk to the total portfolio

Measured by the variance or standard deviation of the portfolio's return
Question No: 29 (Marks: 1) - Please choose one
Which of the following is defined as a line that graphs the systematic, or market risk versus return of the whole market at a certain time and shows all risky marketable securities?
Security market line
Capital market line
Budget line
Value line
http://www.investopedia.com/terms/s/sml.asp
Question No: 30 (Marks: 1) - Please choose one
What is the other name used for optimal portfolio?
Business portfolio
Market portfolio
Mutual fund portfolio
Systematic portfolio
Question No: 31 (Marks: 1) - Please choose one
Which of the following is **FALSE** regarding separation theorem?
The firm's investment decision is independent of the preferences of the owner
The investment decision is dependent on financial decision
Risky portfolios are not tailored to each individual s taste
It is possible to separate investment decisions from financial decisions

Risky portfolios are not tailored to each individual's taste

The two central results of this two-stage budgeting has become known as the Fisher Separation Theorem:

(i) the firm's investment decision is independent of the preferences of the owner;

(ii) the investment decision is independent of the financing decision.

http://www.newschool.edu/nssr/het/essays/capital/fisherinvest.htm

Question No: 32 (Marks: 1) - Please choose one
Which of the following is a measure of securities volatility or systematic risk in comparison to the market as a whole?
Beta
Return on equity
Liquidity
Rate of return
http://www.investopedia.com/terms/b/beta.asp

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Question No: 33 (Marks: 1) - Please choose one
A single-index model uses _____ as a proxy for the systematic risk factor.
A market index, such as the S&P 500
The current account deficit
The growth rate in GNP
The unemployment rate

(page 213)The Single - Index Model:

William Sharpe, following Markowitz, developed the single-index model, which relates returns on each security to the returns on a common index. A broad market index of common stock returns is generally used for this purpose. Think of the S&P 500 as this index.

Relates returns on each security to the returns on a common index, such as the S&P 500 Stock Index

Question No: 34 (Marks: 1) - Please choose one
The concept that two identical assets cannot be sold at different prices is associated with which of the following theory?
Prospect Theory
Modern Portfolio Theory
Dow Theory
Arbitrage Pricing Theory
(page 223) APT is based on the law of one price, which states that two otherwise identical assets cannot sell at different prices.
Question No: 35 (Marks: 1) - Please choose one
Which of the following is NOT an anomaly related to efficient market hypothesis?
Low PE effect
The small firm effect
The neglected firm effect
Common size effect
(page 150) Familiar anomalies include the low PE effect, the small firm effect, the neglected firm effect, the January effect, and the overreaction effect
Question No: 36 (Marks: 1) - Please choose one
Which of the following is defined as an obligatory agreement to transact in the future, based on future price expectations?
Forward contract
Futures contract
Annuity contract
Spread contract
A forward contract is a legally enforceable agreement for delivery of goods or the underlying asset on a specific date in future at a price agreed on the date of contract.
http://www.sihl.in/Static/FAQCommodity.aspx
Question No: 37 (Marks: 1) - Please choose one
Which of the following is defined as a user of the market, who enters into futures contract to manage the risk of adverse price fluctuation in respect of his existing or future asset?
Speculator
Broker

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Hedger
Arbitrager
Hedger is a user of the market, who enters into futures contract to manage the risk of adverse price fluctuation in respect of his existing or future asset.
http://www.sihl.in/Static/FAQCommodity.aspx
Question No: 38 (Marks: 1) - Please choose one
S & P 500 future stock index closes at $ 300 and spot price is $ 325. What is its basis?
-25
-30
25
30
Basis = Cash price - Futures price
Question No: 39 (Marks: 1) - Please choose one
In which of the following situation, the writers of call options expect profit?
When the stock price declines
When the stock prices remain the same
When increase in stock price is less than premium
All of the given options
(Q#58)http://www.markrosa.com/UNO%20Finance%202302/options_sample_questions.htm
Question No: 40 (Marks: 1) - Please choose one
Which of the following is defined as an option whose payoff depends on whether or not the underlying asset has reached or exceeded a predetermined price?
Barrier option
Forward start option
Over-the-counter options
Compound options

Barrier Option - Definition of Barrier Option on Investopedia - A type of option whose payoff depends on whether or not the underlying asset has reached or exceeded a predetermined price.
http://ask.reference.com/web?q=Barrier%20option&l=dir&qsrc=2891&o=10616
Question No: 41 (Marks: 1) - Please choose one
An over-the-counter market can be defined as:
A network of dealers connected electronically
An illegal secondary market for stocks used primarily by those attempting to evade taxes
A primary market for stocks
A form of centralized exchange
(page 80)http://books.google.com/books?id=GF_EO-ZxyM4C&pg=PA80&lpg=PA80&dq=over-the-counter+market+A+network+of+dealers+connected+electronically&source=bl&ots=3rC0VvjmUy&sig=4e5VYIgE28vNzp6GqyTKVIT06Ok&hl=en&ei=N6N-TdWcDJHirAfjk6nCBw&sa=X&oi=book_result&ct=result&resnum=1&ved=0CBMQ6AEwAA#v=onepage&q=over-the-counter%20market%20A%20network%20of%20dealers%20connected%20electronically&f=false

Paper 2

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FINALTERM EXAMINATION
Spring 2009
FIN630- Investment Analysis & Portfolio Management (Session - 3)

Marks: 81
Question No: 1 (Marks: 1) - Please choose one
Which of the following is **EXCLUDED** from the reasons of investing?
To obtain capital gain
To supplement their money
To gather market information
To experience an excitement
Page#3 THREE REASONS FOR INVESTING: 1) Income: 2) Appreciation 3) Excitement:
Question No: 2 (Marks: 1) - Please choose one
_____ believe that securities are priced according to fundamental economic data.
Fundamental analysts
Ratio analysts
Technical analysts
Research analysts
Page#40 ***Fundamental analysts believe securities are priced according to fundamental economic***
data.
Question No: 3 (Marks: 1) - Please choose one
The idea that money available at the present time is worth more than the same amount in the future is called:
Present value
Time value of money
Future value
Annuity concept
TVM Mean?**The idea that money available at the present time is worth more than the same amount in the future due to its potential earning capacity. This core principle of finance holds that, provided money can earn interest, any amount of money is worth more the sooner it is received.**
http://www.investopedia.com/terms/t/timevalueofmoney.asp
also see this

Two key concepts provide the foundation for the field of finance. The first is A dollar today is worth more than a dollar tomorrow, and is often called the time value of money. The second is a safe dollar is worth more than a risky dollar. Anyone who studies finance learns the universal application of these statements and rational decision making. The tradeoffs between risk and return is the principles theme(page#189)

Question No: 4 (Marks: 1) - Please choose one
Which of the following statement is a characteristic of line charts?

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Can be used for comparing two or more values
It is efficient in showing more details
It is simplest and most familiar chart
None of the given choices
The line chart is the simplest and most familiar. Page#55
Question No: 5 (Marks: 1) - Please choose one
What does gross margin represents?
The quality of a firm's operations
The percentage of earnings paid to shareholders
A company's capital structure
The percentage of revenue remaining after cost of goods
Therefore, Gross Margin represents the percentage of revenue remaining after Cost of Goods Sold is deducted. http://sim-u.com/help/manual/accounting_lesson.htm
Question No: 6 (Marks: 1) - Please choose one
If ABC Furniture earned $5 million dollars of profit in a year, and the company had a market capitalization of $85 million, what is the P/E Ratio?
9
14
17
22
Solution:
P/E Ratio = Price/ Earnings
= 85/5 = 17
Question No: 7 (Marks: 1) - Please choose one
Which of the following items will reduce stockholders' equity?
Purchase of equipment
Purchase of supplies
Receiving a loan
Payment of salaries
http://highered.mcgraw-hill.com/sites/0073136484/student_view0/chapter3/multiple_choice_quiz.html
question #14
Question No: 8 (Marks: 1) - Please choose one
Which of the following is the annual net income from an average investment expressed as a percentage of average amount invested?
Net asset value
Return on equity
Return on average investment (ROI)
Discounted value
(page 291)
http://books.google.com/books?id=fsH2d38ibOoC&pg=PA291&lpg=PA291&dq=Return+on+average+investment+is+the+annual+net+income+from+an+average+investment+expressed+as+a+percentage+of+average+amount+invested&source=bl&ots=toCxk9zlei&sig=uuoBAntVzilR46SvV5CdKwGjhS4&hl=en&ei=TDv0Tam2NYyzrAeswp3ZBg&sa=X&oi=book_result&ct=result&resnum=6&ved=0CD4Q6AEwBQ#v=onepage&q=Return%20on%20average%20investment%20is%20the%20annual%20n

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et%20income%20from%20an%20average%20investment%20expressed%20as%20a%20percentage%20of%20average%20amount%20invested&f=false

Question No: 9 (Marks: 1) - Please choose one

Which of the following equity market indicator is price-weighted index?

NASDAQ Composite Index

Standard & Poor's 500 Index

Nikkie 225 average

NYSE Composite Index

(lesson # 25 slide # 18)

Nikkei 225 Average:

Price-weighted index of 225 actively-traded stocks on the Tokyo Stock Exchange.

French index CSE

London Stock Exchange

Ref: A stock index in which each stock influences the index in proportion to its price per share. The value of the index is generated by adding the prices of each of the stocks in the index and dividing them by the total number of stocks. Stocks with a higher price will be given more weight and, therefore, will have a greater influence over the performance of the index.

Currently, the Nikkei is the most widely quoted average of Japanese equities, similar to the Dow Jones Industrial Average. In fact, it was known as the "Nikkei Dow Jones Stock Average" from 1975 to 1985.

Question No: 10 (Marks: 1) - Please choose one

Lahore stock of exchange is _____ based market indicator.

Volume

Capitalization

Price weighting

Profit

(Lesson 25 slide 26)

LSE 25 is volume-based

LSE index is volume weighted

KSE index is capitalized weighted

Question No: 11 (Marks: 1) - Please choose one

Which of the following is defined as the transformation of illiquid, non-marketable risky individual loans into asset-backed securities?

Securitization

Sector rotation

Diversification

Risk aversion

Securitization refers to the transformation of illiquid, risky individual loans into more liquid, less risky securities referred to as asset-backed securities (ABS).

page#167

Question No: 12 (Marks: 1) - Please choose one

Which of the following affects the price of the bond?

Market interest rate

Required rate of return

Interest rate risk

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All of the given options i think so
Several things affect the value of bonds. The big one is interest rates
Question No: 13 (Marks: 1) - Please choose one
Bond is a type of Direct Claim Security whose value is NOT secured by _____.
Real assets
Intangible assets
Fixed assets
Tangible assets
Bond is a type of Direct Claim Security (a legal contractual paper) whose value is secured by Real Assets owned by the Issuer
http://mba.zainbooks.com/terms/management/bonds-definition.shtml
Question No: 14 (Marks: 1) - Please choose one
Which of the following measure that how much a bond price-yield curve deviates from a straight line?
Bond duration
Bond convexity
Bond valuation
All of the given options
Convexity is the price measure of how much a bond's price/yield curve deviates from a straight line
http://www.metaglossary.com/meanings/248219/
Question No: 15 (Marks: 1) - Please choose one
Which of the following is known as speculative bond?
Government bond
Municipal bond
Sovereign bond
Junk bond
What Does *Junk Bond* Mean?
A bond rated 'BB' or lower because of its high default risk. Also known as a "high-yield bond" or "speculative bond". http://www.investopedia.com/terms/j/junkbond.asp
Question No: 16 (Marks: 1) - Please choose one
The risk inherent to the entire market or entire market segment is known as:
Systematic risk
Issuer risk
Specific risk
Nonsystematic risk
What Does *Systematic Risk* Mean?
The risk inherent to the entire market or entire market segment
http://www.investopedia.com/terms/s/systematicrisk.asp
Question No: 17 (Marks: 1) - Please choose one
The excess return that an individual stock or the overall stock market provides over a risk-free rate is known as _____.
Equity risk premium
Bond horizon premium
Share premium

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Liquidity premium

What Does *Equity Risk Premium* Mean?

The excess return that an individual stock or the overall stock market provides over a risk-free rate.

http://www.investopedia.com/terms/e/equityriskpremium.asp

Question No: 18 (Marks: 1) - Please choose one

The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss is known as:

Interest rate risk

Market risk

Liquidity risk

Default risk

What Does *Liquidity Risk* Mean?

The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss.

http://www.investopedia.com/terms/l/liquidityrisk.asp.

Question No: 19 (Marks: 1) - Please choose one

Which of the following may be exchanged for common stock of the same corporation?

Warrant

Exchangeable bond

Debenture

Convertible bond

http://web.utk.edu/~jwachowi/mcquiz/mc22.html q#6

Question No: 20 (Marks: 1) - Please choose one

Which of the following statement is **FALSE**?

Securities move together only because of their common relationship to the market index

The importance of each individual security s risk decreases as the number of securities increases

Risk and return tends to be lowest for investors who trade frequently

The importance of covariance increases with an increase in number of securities

Rationale: There is rule of thumb more you trade more will be risk. Plus sometime a day trader makes more money compared to an investor.

Question No: 21 (Marks: 1) - Please choose one

The average value of beta for all stocks in the market is:

0.5

1.0

1.5

2.0

Question No: 22 (Marks: 1) - Please choose one

A single-index model uses _____ as a proxy for the systematic risk factor.

A market index, such as the S&P 500

The current account deficit

The growth rate in GNP

The unemployment rate

Web quiz ##### 3. A single-index model uses _____as a proxy for the systematic risk factor.

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A) a market index, such as the S&P 500
B) the current account deficit
C) the growth rate in GNP
D) the unemployment rate
E) none of the above

Answer: A Difficulty: Easy
Rationale: The single-index model uses a market index, such as the S&P 500, as a proxy for the market, and thus for systematic risk.

Question No: 23 (Marks: 1) - Please choose one
The anomalies literature _____.
Provides a conclusive rejection of market efficiency
Provides a conclusive support of market efficiency
Suggests that several strategies would have provided superior returns
Provides a conclusive acceptance of market efficiency

34.The anomalies literature _____.
A) provides a conclusive rejection of market efficiency
B) provides a conclusive support of market efficiency
C) suggests that several strategies would have provided superior returns
D) A and C
E) none of the above

Answer: C Difficulty: Moderate

Question No: 24 (Marks: 1) - Please choose one
The _____ gives the number of shares for which each convertible bond can be exchanged.
Conversion ratio
Current ratio
P/E ratio
Conversion premium

19.The _____ gives the number of shares for which each convertible bond can be exchanged.
A) conversion ratio
B) current ratio
C) P/E ratio
D) conversion premium
E) convertible floor

Answer: A Difficulty: Easy
Rationale: The conversion premium is the amount for which the bond sells above conversion value; the price of bond as a straight bond provides the floor. The other terms are not specifically relevant to convertible bonds.

Question No: 25 (Marks: 1) - Please choose one
Which of the following is a financial instrument that conveys the right, but not the obligation, to engage in a future transaction on some underlying security, or in a futures contract?

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Options
Futures
Swaps
Forwards
Option – a financial instrument that conveys the right, but not the obligation, to engage in a future transaction on some underlying security, or in a futures contract.
http://www.investingin.org/buysell/investing-in-options-market/
Question No: 26 (Marks: 1) - Please choose one
Which of the following is an agreement to exchange two currencies on one date and to reverse the transaction at a future date?
Interest rate swap
Foreign currency swap
Total return swap
Credit default swap
Foreign Currency Swap An agreement to exchange two currencies on one date and to reverse the transaction at a future date.
http://www2.stats.govt.nz/domino/external/omni/omni.nsf/23f076d733ded7e74c256570001d92b4/de38adb6f3296a21cc2569030012ad99?OpenDocument
Question No: 27 (Marks: 1) - Please choose one
Which of the following is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flows?
Foreign currency swap
Total return swap
Credit default swap
Interest rate swap

An **interest rate swap** is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flows.
http://en.wikipedia.org/wiki/Interest_rate_swap

Question No: 28 (Marks: 1) - Please choose one
Which of the following is defined as a market for the immediate sale and delivery of assets?
Forward market
Laissez-faire market
Future market
Spot market
Spot Market :The market for assets that involves the immediate sale and delivery of the asset.
http://www.tfex.co.th/en/investor_corner/glossary.html
Question No: 29 (Marks: 1) - Please choose one
Which of the following is defined as a trader, who trades or takes position without having exposure in the physical market, with the sole intention of earning profit?
Hedger
Arbitrager
Speculator

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Broker

Who is speculator? **Ans. A trader, who trades or takes position without having exposure in the physical market, with the sole intention of earning profit is a speculator. http://www.exploreintl.com.np/products/participants.php**

Question No: 30 (Marks: 1) - Please choose one
Which of the following refers to the simultaneous purchase and sale in two markets so that the selling price is higher than the buying price by more than the transaction cost?
Hedging
Arbitrage
Speculation
Brokerage

52. What is arbitrage? Arbitrage refers to the simultaneous purchase and sale in two markets so that the selling price is higher than the buying price by more than the transaction cost, resulting in risk-less profit. to the arbitrageur. http://www.fmc.gov.in/htmldocs/faq/faq3.html

Question No: 31 (Marks: 1) - Please choose one
Which of the following is defined as the difference between spot price and future or forward price?
Beta
ROI
Alpha
Basis
The difference between the price of the underlying asset in the spot market and the futures market is called 'Basis'.
http://bimleshsharma.wordpress.com/2010/09/17/what-is-future-and-option/

(Question No: 32 (Marks: 1) - Please choose one
Which of the following is **TRUE** regarding short hedge?
Price realized=S2+ (F1 F2)
Price realized= S2 (F1+F2)
Price realized= S2 (F2 F1)
Price realized= S2+ (F1F2)
(Lesson 43 slide 24)
Short Hedge
Price Realized=S2+ (F1 – F2) = F1 + Basis

Question No: 33 (Marks: 1) - Please choose one
While calculating cost of asset under long hedge, what does F2 indicate?
Initial asset price
Initial futures price
Final asset price
Final futures price
(lesson 43 slide 23)
Long Hedge
Suppose that
F1 : Initial Futures Price
F2 : Final Futures Price

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S2 : Final Asset Price

Question No: 34 (Marks: 1) - Please choose one

S & P 500 future stock index closes at $ 275 and spot price is $ 230. What is its basis?

40

45

50

55

Explanation:

Basis is the difference between spot and future price. So,275-230=45

http://wenku.baidu.com/view/cbcbb6c49ec3d5bbfd0a74d5.html SLIDE#14

Question No: 35 (Marks: 1) - Please choose one

In which of the following situation, the writers of call options expect profit?

When the stock price declines

When the stock prices remain the same

When increase in stock price is less than premium

All of the given options

http://books.google.com/books?id=mvuF6rrdrHEC&pg=PA291&lpg=PA291&dq=in+which+situation+writers+of+call+options+expect+profit&source=bl&ots=JdC4hvV2QW&sig=ZqmWF6x2gR53uLGBHAtGq8ZSCjg&hl=en&ei=uonrTb1Nia6sB7VuN4F&sa=X&oi=book_result&ct=result&resnum=1&ved=0CBcQ6AEwADgK#v=onepage&q&f=false page#291

(Q#58)http://www.markrosa.com/UNO%20Finance%202302/options_sample_questions.htm

Question No: 36 (Marks: 1) - Please choose one

Which of the following contributes to the smooth operation of an option market?

American Stock Exchange

Over the Counter Options

Chicago Board Options Exchange

Options Clearing Corporation

***The* Options Clearing Corporation *(OCC)* contributes *substantially to the* smooth operation *of the* options market. *www.cba.edu.kw/finclub/Notes/of/Ch.2.ppt* .**

Question No: 37 (Marks: 1) - Please choose one

Which of the following is defined as an option whose payoff depends on whether or not the underlying asset has reached or exceeded a predetermined price?

Barrier option

Forward start option

Over-the-counter options

Compound options

Barrier option: an option whose payoff depends on whether or not the underlying asset has reached or exceeded a predetermined price is known a barrier option.

http://varun-investorsforum.blogspot.com/2011/03/looking-for-more-options-to-offset-your.html

Question No: 38 (Marks: 1) - Please choose one

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Which of the following is an option which is paid for now, but will start at some prespecified date in the future?
Barrier option
Forward start option
Over-the-counter options
Compound options
Forward-start Option

An option which is paid for now, but will start at some prespecified date in the future
http://www.fincad.com/derivatives-resources/glossary/fair-value.aspx

Question No: 39 (Marks: 1) - Please choose one
The direct trade between large institutional investors takes place in which of the following market?
Primary market
Secondary market
Third market
Fourth market
Direct trades between large institutional investors comprise the fourth market... Handouts page#12
Question No: 40 (Marks: 1) - Please choose one
Which of the following statement is **TRUE** about value investors?
They are patient
They seek rapidly growing companies
They are speculators
They seek slow growing companies
Ref from wikipedia: a value investor must be able and willing to be patient for the rest of the market to recognize and correct whatever pricing issue created the momentary value.
Question No: 41 (Marks: 1) - Please choose one
An investor will purchase shares of companies in the development stage for:
Current income
Current income and capital gains
Passive losses to offset other income
Capital gains only
An investor will purchase shares of companies in the development stage for:
A) Current income only
B) Current income and capital gains
C) Capital gains only
D) Passive losses to offset other income
Answer: C
http://www1.emath.pu.edu.tw/chchang/test006.pdf
Question No: 42 (Marks: 1) - Please choose one
Which of the following items from the Income Statement is typically used to judge the success of a company?
Earnings from continuing operations
After-tax net income
Operating income

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Diluted net income per share

Earnings from continuing operations typically are used to judge the company's success and are almost always the earnings reported in the financial press.

http://www.google.com/#hl=en&q=Earnings+from+continuing+operations+typically+are+used+to+judge+the+company%27s+success+and+are+almost+always+the+earnings+reported+in+the+financial+press.&um=1&ie=UTF-8&tbo=u&tbm=bks&source=og&sa=N&tab=wp&bav=on.2,or.r_gc.r_pw.&fp=7775ba42dc1d177f&biw=1024&bih=492

Paper 3

FINALTERM EXAMINATION
Spring 2010
FIN630- Investment Analysis & Portfolio Management

Question No: 1 (Marks: 1) - Please choose one

_____ are those stocks whose results are tied with the overall state of the national economy.

- ► Growth stocks
- ► Income stocks
- ► **Cyclical stocks**
- ► Blue chip stocks

Ref: PG#25

A cyclical stock is one whose fortune is directly tied to the state of the overall national economy.

Question No: 2 (Marks: 1) - Please choose one

Companies that have capitalization amounts between $500 million and $2billion are known as _____.

- ► Small cap companies
- ► **Mid cap companies**
- ► Growth companies
- ► Large cap companies

Ref: Slide (Lecture#6)

- **Mid-cap stocks: Capitalization between $500 million and $2billion.**

Question No: 3 (Marks: 1) - Please choose one

Current ratio is also known as:

- ► **Working capital ratio**
- ► Acid test ratio
- ► Debt coverage ratio
- ► Dividend yield ratio

Ref: PG#82

The current ratio is also known as the working capital ratio and is normally presented as a real ratio.

Question No: 4 (Marks: 1) - Please choose one

Which of the following is a basket of stocks that tracks a particular sector, investment style, geographical area, or the market as a whole?

- ► **Exchange traded fund**
- ► Open-end fund

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► Closed-end fund
► Unit investment trust

Ref: PG#135

An ETF is a basket of stocks that tracks a particular sector, investment style, geographical area, or the market as a whole. (page no. 135)

Question No: 5 (Marks: 1) - Please choose one

Positive abnormal returns for corporate insiders constitute a violation of:

► Weak form efficiency
► Semi-strong form efficiency
► **Strong-form efficiency**
► Weak and strong form of efficiency

http://highered.mcgraw-hill.com/sites/0073382418/student_view0/chapter6/multiple_choice_quiz.html

Q#7

Question No: 6 (Marks: 1) - Please choose one

Which of the following states that investors with loss will increase their risk tolerance in future transactions?

► Loss aversion
► Prospect theory
► **Illusion of control (review)**
► Anchoring

Ref;Illusion of control is the tendency for human beings to believe they can control, or at least influence, outcomes that they demonstrably have no influence over. It has been demonstrated in a succession of different experiments, and is thought to influence gambling behavior and belief in the paranormal.

Question No: 7 (Marks: 1) - Please choose one

Which of the following equity market indicator is composed of 30 blue-chip stocks?

► NYSE Composite Index
► **Dow-Jones Industrial Average**
► NASDAQ Composite Index
► Standard & Poor's 500 Index

REF: PG#158_159

1. Dow Jones Averages:

Since 1928, 30 large blue chip companies have comprised the index.

Question No: 8 (Marks: 1) - Please choose one

Which of the following is **NOT** included in money market securities?

► Treasury Bill
► Certificate of deposit
► Commercial paper
► **Future**

Money Market Instruments
Treasury Bills
Certificates Of Deposit
Commercial Paper

http://www.eagletraders.com/neg_financial_instruments/type_of_instruments.htm

Question No: 9 (Marks: 1) - Please choose one

LSE captures _____ of the market capitalization.

► 45%
► 50%

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► **53%**
► 66%

(lesson # 25 , slide # 25) LSE 25-Index includes the top 25 traded companies at LSE and captures 53% of the market capitalization and 98% of the total trading volume of LSE.

Question No: 10 (Marks: 1) - Please choose one

The estimated percentage change in the value of a bond derived from the duration rule:

► **Is less than the actual price change when the yield decreases**
► Is less than the actual price change when the yield increases
► Is greater than the actual price change when the yield decreases
► Is always greater than the actual price change

http://highered.mcgraw-hill.com/sites/0073405175/student_view0/chapter11/multiple_choice_quiz.html Q#5

Question No: 11 (Marks: 1) - Please choose one

Which of the following bonds are characterized by high yields and high risks?

► **Junk bonds**
► Convertible bonds
► Municipal bonds
► Government bonds

Ref: PG#166) Junk bonds are high-risk, high-yield bonds

Question No: 12 (Marks: 1) - Please choose one

Systematic risk is also known as:

► Market risk
► General risk
► Un-diversifiable risk
► **All of the given options**

(lesson 34 slide #15 and 16)

- Two general types:
  - Systematic Risk
  - Non-systematic Risk
- Systematic (general) Risk is a risk that influences a large number of assets.

Systematic risk also known as *systemic risk*, *market risk* and un-diversifiable risk is risk which applies to whole market or market segment.
http://blog.nobletrading.com/2008/05/what-is-systematic-risk.html
Undiversifiable **- Also known as "systematic" or "market risk",**

Question No: 13 (Marks: 1) - Please choose one

Which of the following is the only way to protect investors from nonsystematic risk?

► Sector rotation
► Securitization
► **Diversification**
► Risk aversion

(Lesson 32 slide 17)

Diversification is the only way to protect* yourself from unsystematic *risk
http://www.investopedia.com/university/risk/risk2.asp

Question No: 14 (Marks: 1) - Please choose one

If correlation coefficient (*m*n) between two securities is -1.0, what does it represents?

► There is a positive relationship between security m and n
► **There is a negative relationship between security m and n**

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► There is no relationship between security m and n
► The given data is not sufficient to arrive at any result

REF: PG#208

Correlation Coefficient:

ρ_{ij} = -1.0

= perfect negative (inverse) correlation

(Slide Lesson#34)

ρ**mn** = -1.0 = perfect negative (inverse) correlation

- **What if the correlation of A&B = -1 ? This is an unusual case, because it means that when A moves up, B always moves down. correlations.**

http://viking.som.yale.edu/will/finman540/classnotes/class2.html

Question No: 15 (Marks: 1) - Please choose one

Which of the following measure has values in the interval of [+1, -1]?

► **Correlation coefficient**
► Covariance
► Regression
► Standard deviation

Ref; (Page 208) relative measure of association that is bounded by +1.0 'and—1.0, with

Question No: 16 (Marks: 1) - Please choose one

Who was the developer of CAPM?

► Gerald Appel
► **Markowitz**
► Joseph Granville
► John Bollinger

The CAPM Model was developed by Harry Markowitz in 1962, and was responsible for his winning the Nobel Prize some years later.

http://www.palisade.com/articles/motta_preftheory.asp

Question No: 17 (Marks: 1) - Please choose one

The average value of beta for all stocks in the market is:

► 0.5
► **1.0**
► 1.5
► 2.0

http://books.google.com.pk/books?id=4lmDIw_4kpkC&pg=PA391&dq=The+average+value+of+beta+for+all+stocks+in+the+market+is+1.0&hl=en&ei=lpzqTdHRHsyF-waNooDoDw&sa=X&oi=book_result&ct=result&resnum=2&ved=0CDIQ6AEwAQ#v=onepage&q=The%20average%20for%20all%20stocks%20in%20the%20market%20has%20arbitrarily%20been%20assigned%20a%20beta%20of%201.0&f=false

PG#391

Question No: 18 (Marks: 1) - Please choose one

Which of the following involves dividing an investment portfolio among different financial assets?

► Securitization
► Sector rotation
► **Asset allocation**
► Risk aversion

Ref: PG#215

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The asset allocation decision refers to the allocation of portfolio assets to broad asset markets; in other words, how much of the portfolio's funds are to be, invested in stocks, in bonds, money market assets, and so forth. (page 215)
Asset allocation involves dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash.
http://www.sec.gov/investor/pubs/assetallocation.htm

Question No: 19 (Marks: 1) - Please choose one
Which of the following are regulated by Commodity Futures Trading Commission (CFTC)?
- ► Options
- ► **Futures**
- ► Swaps
- ► Forwards

Ref: Slide #28) (Lesson#41)
Futures contracts are regulated by the Commodity Futures Trading Commission (CFTC).

Question No: 20 (Marks: 1) - Please choose one
Which of the following is defined as a market for the immediate sale and delivery of assets?
- ► Laissez-faire market
- ► Future market
- ► **Spot market**
- ► Forward market

Ref: PG#246
Spot markets are markets for immediate: delivery.
Slide (Lesson#41)
- **Spot or cash market:**
  - **Price refers to item available for immediate delivery.**

Spot Market The market for assets that involves the immediate sale and delivery of the asset. http://www.tfex.co.th/en/investor_corner/glossary.html

Question No: 21 (Marks: 1) - Please choose one
Which of the following statement is **FALSE** regarding forward contracts?
- ► Forward contracts are traded on over- the-counter market
- ► There is no surety/guarantee of the trade settlement
- ► There are no pre determined standards in future contracts
- ► **Forward contracts involve a process known as marking to market**

Ref
Futures contracts are standardized and easily traded. (page 248)
Slide(lect#41)
- **A *forward contract* is functionally similar to a futures contract, however:**
  - **There is no marking to market.**
  - **Forward contracts are not marketable.**

While futures contracts are traded on the exchange, forwards contracts are traded over-the-counter market. Incase of futures contracts the exchange specifies the standardized features of the contract, while no pre determined standards are there in the forward contracts.
http://www.querycat.com/question/a550532fb8edb28d235c6492cf28f18f

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Futures contract

This process is known as *marking to market*
http://en.wikipedia.org/wiki/Futures_contract

Dear Student,
The question is about "forward contract" not "future contract"
Forwards do not have standards and are not traded on stock exchange. Now the third option is excluded because it is not related to forwards, it is about futures so the right option will be based on the slide's information that is
There is no marking to market.

Question No: 22 (Marks: 1) - Please choose one
Program trading calls for which of the following?
- ► **Computerized trigger points for trades**
- ► The use of short hedge position
- ► The use of only call option
- ► The use of long hedge position

http://highered.mcgraw-hill.com/sites/0073405159/student_view0/chapter17/multiple_choice_quiz.html Q#15

Question No: 23 (Marks: 1) - Please choose one
S & P 500 future stock index closes at $ 275 and spot price is $ 230. What is its basis?
- ► 40
- ► **45**
- ► 50
- ► 55

REF:
275-230=45
The difference between the spot price and the futures price is called the basis.
http://www.scribd.com/doc/54302172/46/The-Futures-Basis

Question No: 24 (Marks: 1) - Please choose one
The average price of a security or currency over a specified time period used to spot pricing trends by smoothing out the large fluctuations is known as:
- ► **Moving Average**
- ► Standard deviation
- ► Variance
- ► Beta

Moving Average - Technical analysis term meaning the average price of a security over a specified time period, used in order to spot pricing trends by flattening out large fluctuations.
http://en.mimi.hu/stockmarket/average_price.html

Question No: 25 (Marks: 1) - Please choose one
Which of the formula is **TRUE** for calculating retained earnings?
- ► **Retained Earnings = Net Earnings – Dividends**
- ► Retained Earnings = Net Earnings + Long term debt
- ► Retained Earnings = Net Earnings + Short term debt
- ► Retained Earnings = Net Earnings + Dividend

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REF:The formula calculates retained earnings by adding net income to (or subtracting any net losses from) beginning retained earnings and subtracting any dividends paid to shareholders:

$$\text{Retained Earnings (RE)} = \text{Beginning RE} + \text{Net Income} - \text{Dividends}$$

http://www.investopedia.com/terms/r/retainedearnings.asp

Question No: 26 (Marks: 1) - Please choose one

The Dow Jones Industrial Average (DJIA) is an example of which of the following index?

- ► **Price weighting index**
- ► Capitalization weighting index
- ► Volume based index
- ► Fixed income index

Page#157

A price-weighted index is composed of a single share of each of the index component,regardless of the price of the share or the size of the underlying company: the Dow Jones Industrial Average (DJIA) is an example of such an index. The first step the 30 industrial companies comprising the index.

Question No: 27 (Marks: 1) - Please choose one

Which of the following is a measure of the volatility of stock prices or returns?

- ► ROR
- ► **Beta**
- ► ROI
- ► Risk premium

"beta," which is a measure of stock price volatility.

http://en.wikipedia.org/wiki/Business_valuation

OTHER REF:

http://books.google.com.pk/books?id=i1eMIT65NscC&pg=PA92&dq=beta+is+a+measure+of+the+volatility+of+stock+prices+or+returns?&hl=en&ei=sojrTb34FMro-gbs1aXbDw&sa=X&oi=book_result&ct=result&resnum=5&ved=0CD4Q6AEwBA#v=onepage&q&f=false

Question No: 28 (Marks: 1) - Please choose one

Active portfolio managers try to construct a risky portfolio with _____.

- ► **A higher Sharpe measure than a passive strategy**
- ► A lower Sharpe measure than a passive strategy
- ► The same Sharpe measure as a passive strategy
- ► Very few securities

Active portfolio managers try to construct a risky portfolio with _____.

A) a higher Sharpe measure than a passive strategy
B) a lower Sharpe measure than a passive strategy
C) the same Sharpe measure as a passive strategy
D) very few securities
E) none of the above

Answer: A Difficulty: Moderate

Rationale: A higher Sharpe measure than a passive strategy is indicative of the benefits of active management

http://webcache.googleusercontent.com/search?q=cache:_5ju4iWWWXoJ:www2.cob.ilstu.edu/gnnaidu/Tb/Chap027.RTF+Active+portfolio+managers+try+to+construct+a+risky+portfolio+with+_____.+A%29+a+higher+Sharpe+measure+than+a+passive+strateg

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y+B%29+a+lower+Sharpe+measure+than+a+passive+strategy+C%29+the+same+Sharpe+measure+as+a+passive+strategy+D%29+very+few+securities+E%29+none+of+the+above+Answer:+A+Difficulty:+Moderate+Rationale:+A+higher+Sharpe+measure+than+a+passive+strategy+is+indicative+of+the+benefits+of+active+management&cd=1&hl=en&ct=clnk&gl=pk&source=www.google.com.pk

Question No: 29 (Marks: 1) - Please choose one

Which of the following is the **CORRECT** formula for calculating the buying power of investors?

- ► Assets – liabilities
- ► **Equity – debt**
- ► Short term debt – long tem debt
- ► Current assets – current liabilities

Ref : Page#31

Buying power = equity – debt balance

Question No: 30 (Marks: 1) - Please choose one

When a company's market value is divided by sales, it is known as:

- ► Net income margin
- ► Price-to-market value ratio
- ► Price-to-book value ratio
- ► **Price-to-sales ratio**

Price-to-sales ratio (lesson 12 slide 12)

– Ratio of a company's total market value (price times number of shares) divided by sales.

Market valuation of a firm's revenues

Question No: 31 (Marks: 1) - Please choose one

Which of the following statements is **FALSE** about Earnings per Share?

- ► It is calculated by dividing Net income over number of shares outstanding.
- ► Earnings per share is a ratio, which is used for share price evaluation.
- ► Earnings per share relate income with ownership.
- ► **It is a liquidity measure.**

(4th option)Economic earnings per share is not a liquidity measure

(lesson 12 slide 26)Earnings per share (EPS) (profitability ratio)

(1st option)The net income earned by each share of outstanding common stock. (p. 254).

http://www.wiley.com/college/acc/weygandt347736/site/glossary/home.htm

(3rd option)Earnings per share (EPS) is a way to relate income to ownership on a per share basis, and is used in evaluating share price.

http://www.college-cram.com/study/finance/chapter/ratios-of-profitability/

Question No: 32 (Marks: 1) - Please choose one

Which form of the Efficient Market Hypothesis implies that an investor can achieve positive abnormal returns on average by using technical analysis?

- ► Strong form
- ► Weak form
- ► **Semi-strong form**
- ► None of the given options

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Ref

3. Strong-form efficient markets. The strong form of the EMH states that stock prices fully reflect all information from public and private sources. The strong form includes all types of information: market, nonmarket public, and private (inside) information. This means that no group of investors has monopolistic access to information relevant to the formation of prices, and none should be able to consistently achieve abnormal returns.
http://www.cafewriter.com/finance/efficient-market-hypothesis.html

The three forms of the efficient markets hypothesis are: 1) Weak form. Market prices reflect information contained in historical prices. Investors are unable to earn abnormal returns using historical prices to predict future price movements. 2) Semi-strong form. In addition to historical data, market prices reflect all publicly-available information. Investors with insider, or private information, are able to earn abnormal returns. 3) Strong form. Market prices reflect all information, public or private. Investors are unable to earn abnormal returns using insider information or historical prices to predict future price movements.

Question No: 33 (Marks: 1) - Please choose one

A straight-line would have convexity of:

- ► -1
- ► **0**
- ► +1
- ► +2

Question No: 34 (Marks: 1) - Please choose one

Bonds that are **NOT** contracted to make periodic payments are called:

- ► Deferred coupon bonds
- ► Eurobonds
- ► Corporate bonds
- ► **Zero-coupon bonds**

Ref

Zero-Coupon *Bonds Not* all *bonds make periodic* coupon *payments. Bonds that are not contracted to make periodic* coupon *payments are called* zero-coupon *bonds.*
(page 37)
http://books.google.com/books?id=5qj02oqoTFsC&pg=PA37&lpg=PA37&dq=Bonds+that+are+not+contracted+to+make+periodic+coupon+payments+are+called+zero-coupon+bonds&source=bl&ots=IqBUn8UMYN&sig=ELrjq3D_Qc3Bx54uADvw_78FKuM&hl=en&ei=3wn2TfTdI8PSrQeV1ND1Bg&sa=X&oi=book_result&ct=result&resnum=1&ved=0CBUQ6AEwAA#v=onepage&q=Bonds%20that%20are%20not%20contracted%20to%20make%20periodic%20coupon%20payments%20are%20called%20zero-coupon%20bonds&f=false

Question No: 35 (Marks: 1) - Please choose one

Which of the following statements about exchange traded derivatives is **LEAST** accurate?

- ► They are liquid.
- ► They are standardized contracts.
- ► **They carry significant default risk.**
- ► They have no credit risk.

(2nd option)Exchange-traded derivative contracts: Standardized derivative contracts
http://en.wikipedia.org/wiki/Derivative_%28finance%29
(page 671) http://books.google.com.pk/books?id=v9WyB-8mk1oC&pg=PA667&dq=exchange-

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traded+derivatives+are+not+liquid&hl=en&ei=QcrsTaOoO4H10gGi-oDJAQ&sa=X&oi=book_result&ct=result&resnum=6&ved=0CEYQ6AEwBQ#v=onepage&q=Exchange-traded%20derivatives%20are%20much%20more%20liquid&f=false

(4th option)

http://books.google.com.pk/books?id=RHo5Mck06wUC&pg=PA98&dq=exchange+traded+derivatives++have+no+credit+risk&hl=en&ei=bMvsTe_9BMjb0QHXx_W8AQ&sa=X&oi=book_result&ct=result&resnum=7&ved=0CEwQ6AEwBg#v=onepage&q=exchange%20traded%20derivatives%20%20have%20no%20credit%20risk&f=false

(3rd option)

http://books.google.com.pk/books?id=0tOPP7vtFH4C&pg=PA214&dq=exchange+traded+derivatives++have+no+credit+risk&hl=en&ei=bMvsTe_9BMjb0QHXx_W8AQ&sa=X&oi=book_result&ct=result&resnum=4&ved=0CDsQ6AEwAw#v=onepage&q=The%20credit%20or%20default%20risk%20of%20exchange-traded%20derivatives%20is%20approximately%20zero&f=false

Question No: 36 (Marks: 1) - Please choose one

Which of the following is **LEAST** likely to a purpose served by the derivative markets?

- ► **Arbitrage opportunities**
- ► Price discovery
- ► Risk management
- ► Market efficiency

Purposes of derivative markets: Price discovery, Risk management, Market completeness, Market efficiency & Trading efficiency.

http://www.analystnotes.com/notes/subject.php?id=438

http://www.assignmenthelp.net/assignment_help/purposes-of-derivative-markets.php

Question No: 37 (Marks: 1) - Please choose one

The **MOST** likely reason derivative markets have flourished is that:

- ► Derivatives are easy to understand and use.
- ► **Derivatives have relatively low transaction costs.**
- ► The pricing of derivatives is relatively straightforward.
- ► Derivative markets are very strong all over the world.

Ref

http://www.scribd.com/doc/30217535/Analysis-of-Derivatives

IN page#38 See point 11(B)

Question No: 38 (Marks: 1) - Please choose one

As the number of stocks in a portfolio increases, the portfolio's systematic risk:

- ► Can increase or decrease
- ► Decrease at a decreasing rate
- ► Decrease at an increasing rate
- ► **Increase at an increasing rate**

Ref

Variability in a security's total returns that is directly associated with overall movements in the general market or economy is called systematic (market) risk.

Virtually all securities have some systematic risk, whether bonds or stocks, because systematic risk directly encompasses the interest rate, market, and inflation risks. (PAGE NO. 198)

Question No: 39 (Marks: 1) - Please choose one

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Which of the following is **LEAST** likely a component of an investor's required rate of return on a stock?

► The real risk-free rate
► The expected inflation rate
► **A growth premium**
► A risk premium

(lesson 21, slide 22)

- **Risk-free rate**
- **RF =Real ROR + Inflation premium**
- **The risk premium**
  - **Reflects all uncertainty in the asset.**
  - **Nominal RF must contain premium for expected inflation**.

Question No: 40 (Marks: 1) - Please choose one

This industry is **MOST** likely in which phase (s) of its life cycle?

► Deceleration of growth and decline
► **Stabilization and market maturity**
► Mature growth
► Pioneering

http://knol.google.com/k/narayana-rao-k-v-s-s/the-industry-life-cycle-sales-growth/2utb2lsm2k7a/141#

Question No: 41 (Marks: 1) - Please choose one

Which of the following statements regarding life cycle of an industry is **MOST** accurate?

► **In the pioneering phase, profits are small or negative.**
► In the mature growth phase, sales growth falls below normal for the first time.
► During the stabilization phase, growth rates are still above the growth rates in economy.
► The growth of the substitute products increases total market share & causes profits to increase in the deceleration phase.

Ref; Profit margins and profits are often small or negative (page no. 98)

Question No: 42 (Marks: 1) - Please choose one

Which of the following is **LEAST** likely an assumption underlying technical analysis?

► The laws of the supply and demand drive stock prices.
► Stock prices move in trends that persist for long time periods.
► **Shifts in supply and demand can be observed in market price behaviour**
► Supply is driven by the rational behavior of the firms offering their shares while demand is driven by the irrational behaviors of the investors.

Ref; Charts can be used to predict changes in supply and demand (page no. 54)

The Underlying Assumptions of Technical Analysis

Underlying all of technical analysis are the following assumptions:

Values and prices are determined by supply and demand.
Supply and demand are driven by both rational and irrational behavior.
Security prices move in trends that persist for long periods.
The shift in supply and demand can be observed in market price behavior.

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Technical Analysis looks for signs that the price has moved, and bases its strategy on the premise that price changes will occur over a long period. When we recognize a price movement opposite to its long period supposed movement we can analyze where is it moving next.

http://daytradingstocksonline.com/how-to-make-money-in-the-stock-market-by-recognizing-trends-with-uctrend-technical-analysis/

Paper 4

FINALTERM EXAMINATION
Spring 2010
FIN630- Investment Analysis & Portfolio Management (Session - 4)

Question No: 1 (Marks: 1) - Please choose one
A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value is known as.

- ► **Dividend Discount Model**
- ► The Residual Earning Model
- ► None of the given options
- ► Capital Asset Pricing Model

A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value. The idea is that if the value obtained from the DDM is higher than what the shares are currently trading at, then the stock is undervalued. http://www.investopedia.com/terms/d/ddm.asp

Question No: 2 (Marks: 1) - Please choose one
According to Dow Theory, primary trend is a:
Short term trend ►
► **Long term trend**
Medium term trend ►
None of the given options ►
Ref: Primary Trend Called "the tide" by Dow.
This is the trend that defines the long-term direction (up to several years).

Question No: 3 (Marks: 1) - Please choose one
Which of the following functions do mutual fund companies perform for their investors?

- ► Record keeping and administration
- ► Professional management
- ► Diversification and divisibility
- ► **All of the given options**

(Q#4) http://highered.mcgraw-hill.com/sites/007338237x/student_view0/chapter4/multiple_choice_quiz.html

Question No: 4 (Marks: 1) - Please choose one
The concept that it is impossible to "beat the market" because stock market efficiency causes existing share prices to always incorporate and reflect all relevant information refers to which of the following?

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- ► Dow Theory
- ► Dividend discount model
- ► **Efficient market hypothesis**
- ► Prospect theory

Efficient Market Hypothesis - EMH Mean?

An investment theory that states it is impossible to "beat the market" because stock market efficiency causes existing share prices to always incorporate and reflect all relevant information.

http://www.investopedia.com/terms/e/efficientmarkethypothesis.asp

Question No: 5 (Marks: 1) - Please choose one

Which of the following is the minimum expected rate of return needed to induce investment?

- ► Expected return
- ► Return on equity
- ► **Required rate of return**
- ► Return on assets

Required Rate of Return: Minimum expected rate of return needed to induce investment

Common Stock: Analysis and Strategy

http://books.google.com/books?id=fJ9dj4kCo0AC&pg=PA247&lpg=PA247&dq=Required+rate+of+return+is+the+minimum+expected+rate+of+return+needed+to+induce+investment&source=bl&ots=SiTIQ4o0p4&sig=NgjRn7foimUiAvqt98tQmuKlQAI&hl=en&ei=a_nyTfCWFsmtrAe6--y_Bg&sa=X&oi=book_result&ct=result&resnum=5&ved=0CDIQ6AEwBA#v=onepage&q&f=false

Question No: 6 (Marks: 1) - Please choose one

In which of the following form of efficient market hypothesis security prices reflect only past stock information?

- ► **Weak form**
- ► Semi strong form
- ► Strong form
- ► Both weak and strong form

(lesson # 23 , slide # 12) Weak Form: Prices reflect all past price and volume data.

- **Technical analysis, which relies on the past history of prices, is of little or no value in assessing future changes in price.**

http://comp.uark.edu/~tjandik/papers/emh.pdf

Question No: 7 (Marks: 1) - Please choose one

Which of the following is a concept in economics, finance, and psychology related to the behavior of consumers and investors under uncertainty?

- ► Illusion of control
- ► Anchoring
- ► Mental accounting
- ► **Risk Aversion**

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Risk aversion is a concept in economics, finance, and psychology related to the behaviour of consumers and investors under uncertainty.
http://www.bookrags.com/wiki/Risk_aversion

Question No: 8 (Marks: 1) - Please choose one

Which of the following is an example of a non-marketable security?

- ► Treasury bill
- ► Negotiated CD
- **► U.S. Government savings bond**
- ► Banker's acceptance

(Q# 5)http://web.ku.edu/~finmhir/FIN410/EXAMS/htm/KEY921F.htm
(Q#3)http://web.ku.edu/~finmhir/FIN410/EXAMS/KEY1993F1.pdf

Question No: 9 (Marks: 1) VuSchool - Please choose one

Which of the following is defined as the interest rate stated on a bond, note or other fixed income security, expressed as a percentage of the principal?

- ► Interest free rate
- **► Coupon rate**
- ► Discount rate
- ► Bank rate

Ref: Coupon - Also called "coupon rate" or "coupon percent rate", is the interest rate stated on a bond, note, or other fixed income security when it is issued. In general, the coupon is paid semiannually and expressed as a percentage of the face value.
http://www.investorwords.com/1174/coupon_rate.html

Question No: 10 (Marks: 1) - Please choose one

Which of the following is a measure of bond's lifetime that accounts for the entire pattern of cash flows over the life of the bond?

- **► Duration**
- ► Coupon
- ► Convexity
- ► Yield to maturity

Ref: A measure of a bond's lifetime, stated in years, that accounts for the entire pattern (both size and timing) of the cash flows over the life of the bond
http://www.flashcardmachine.com/fin-401.html
Bond Yields and Prices

Question No: 11 (Marks: 1) - Please choose one

Which of the following factor contributes to the price volatility of a bond?

- ► Maturity
- ► Coupon
- ► Yield to maturity
- **► All of the given options**

(page 185) Using the bond valuation model, he showed the changes that occur in the price of a bond (i.e., its volatility), given a change in yields, as a result of bond variables such as time to maturity and coupon

(lesson 29 slide # 11)

- **As maturity increases, price sensitivity increases at a decreasing rate.**
- **Price sensitivity is inversely related to a bond's coupon rate.**
- **Price sensitivity is inversely related to the yield to maturity at which the bond is selling**

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(Lesson 29 slide #20) Measuring Bond Price Volatility: Duration

- **Important considerations:**
  - **Different effects of yield changes on the prices and rates of return for different bonds.**
  - **Maturity**
  - **It May not have an identical economic lifetime.**
  - **A measure is needed that accounts for both size and timing of cash flows.**
  - **Maturity is an inadequate measure of volatility.**

Question No: 12 (Marks: 1) - Please choose one

Which of the following is defined as the point at which revenues equal costs?

► Yield to maturity
► **Break-even**
► Margin
► Leverage point

http://www.cliffsnotes.com/study_guide/Cost-Volume-Profit-Analysis.topicArticleId-21248,articleId-21229.html

Question No: 13 (Marks: 1) - Please choose one

Which of the following is rated as "'BB" or lower because of its high default risk?

► Convertible bonds
► Municipal bonds
► Government bonds
► **Junk bonds**

(page 166) Junk bonds are high-risk, high-yield bonds that carry ratings of BB (S&P) or Ba (Moody's) or lower, with correspondingly higher yields.

Ref: Junk Bond - A bond rated 'BB' or lower because of its high default risk. Also known as a "high-yield bond" or "speculative bond".
http://www.investopedia.com/terms/j/junkbond.asp

Question No: 14 (Marks: 1) - Please choose one

Bond horizon premium is the difference between which of the following types of securities?

► **Long- and short-term government securities**
► Stock and risk-free returns
► Equity and shot-term government securities
► None of the given options

- **Bond horizon premium is the difference between long- and short-term government securities**

http://webcache.googleusercontent.com/search?q=cache:LBZnYOXkftMJ:ta.ba.ttu.edu/abrar/fin3324/RISK.ppt+Bond+horizon+premium+is+the+difference+between+Long-+and+short-term+government+securities&cd=2&hl=en&ct=clnk&source=www.google.com

http://golum.riv.csu.edu.au/~hskoko/subjects/fin221/lect03.pdf

Question No: 15 (Marks: 1) - Please choose one

Which of the following statement is **FALSE**?

► Each portfolio asset has a weight which represents the percent of the total portfolio value
► Portfolio risk is not a weighted average of the risk of individual securities in the portfolio

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► Portfolio risk is measured by variance or standard deviation of the portfolio's return

► **None of the given options**

– Each portfolio asset has a weight, w, which represents the percent of the total portfolio value

– Portfolio risk is not a weighted average of the risk of the individual securities in the portfolio

Portfolio Risk

Portfolio risk not simply the sum of individual security risks - Emphasis on the risk of the entire portfolio and not on risk of individual securities in the portfolio - Individual stocks are risky only if they add risk to the total portfolio

Measured by the variance or standard deviation of the portfolio's return

Question No: 16 (Marks: 1) - Please choose one

Which of the following indicates that the returns on the two securities (m and n) tend to move in the same direction at the same time?

► rmn = +1.0

► *r*mn = -1.0

► *r*mn =0

► **All of the given options**

(Lesson # 34 slide # 22)

- **Statistical measure of association.**
- **ρmn = correlation coefficient between securities m and n**
  - **ρmn = +1.0 = perfect positive correlation**
  - **ρmn = -1.0 = perfect negative (inverse) correlation**
  - **ρmn = 0.0 = zero correlation**

Question No: 17 (Marks: 1) - Please choose one

Who was the developer of CAPM?

► Gerald Appel

► **Markowitz**

► Joseph Granville

► John Bollinger

Ref:The CAPM Model was developed by Harry Markowitz in 1962.
(lesson # 36 , slide # 15)

- **CAPM focuses on the equilibrium relationship between the risk and expected return on risky assets.**
- **It builds on Markowitz portfolio theory**

Question No: 18 (Marks: 1) - Please choose one

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Which of the following is a measure of securities volatility or systematic risk in comparison to the market as a whole?

- ► **Beta**
- ► Return on equity
- ► Liquidity
- ► Rate of return

Ref: A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model (CAPM), a model that calculates the expected return of an asset based on Also known as "beta coefficient"
http://www.investopedia.com/terms/b/beta.asp

Question No: 19 (Marks: 1) - Please choose one

The _____ gives the number of shares for which each convertible bond can be exchanged.

- ► **Conversion ratio**
- ► Current ratio
- ► P/E ratio
- ► Conversion premium

(Q# 19)
http://webcache.googleusercontent.com/search?q=cache:KkC99LjNB5UJ:www2.cob.ilstu.edu/gnnaidu/Tb/Chap014.RTF+number+of+shares+for+which+each+convertible+bond+can+be+exchanged&cd=1&hl=en&ct=clnk&source=www.google.com

Question No: 20 (Marks: 1) - Please choose one

The _____ provides an unequivocal statement on the expected return-beta relationship for all assets, whereas the _____ implies that this relationship holds for all but perhaps a small number of securities.

- ► APT, CAPM
- ► APT, OPM
- ► **CAPM, APT**
- ► CAPM, OPM

(Q# 4)http://highered.mcgraw-hill.com/sites/007338237x/student_view0/chapter10/multiple_choice_quiz.html

Question No: 21 (Marks: 1) - Please choose one

Which of the following involves dividing an investment portfolio among different financial assets?

- ► Securitization
- ► Sector rotation
- ► **Asset allocation**
- ► Risk aversion

Ref: Asset allocation involves dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash. The process of determining which mix of assets to hold in your portfolio is a very personal one. The asset allocation that works best for you at any given point in your life will depend largely on your time horizon and your ability to tolerate risk.
http://www.sec.gov/investor/pubs/assetallocation.htm

Asset allocation involves dividing an investment portfolio among different asset classes based on an investor's financial requirements.
http://www.portfoliosolutions.com/strategy-asset_allocation.html

Question No: 22 (Marks: 1) - Please choose one

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Which of the following is the practice of using derivatives as building blocks to create specialized products?

- ► **Financial engineering**
- ► Risk management
- ► Income generation
- ► Portfolio management

***(lesson 44 slide 16)Financial engineering* refers to the practice of using derivatives as building blocks in the creation of some specialized product**

Financial Engineering is the practice of using derivatives as building blocks to create specialized products. As the field of financial engineering has grown, the use of options to create synthetic positions and to hedge cash positions has tremendously expanded.

http://cosmicspeculator.com/index.php?option=com_content&view=article&id=36&Itemid=54

Question No: 23 (Marks: 1) - Please choose one

Which of the following is defined as an investment transaction that is intended to provide protection against a decline in the value of an asset?

- ► **Short hedge**
- ► Long hedge
- ► Natural hedge
- ► Cross hedge

Short hedge: By definition, a short hedge is an investment transaction which is intended to provide protection against a decline in the value of an asset.
http://www.buzzle.com/articles/business-terms-glossary-of-business-terms-and-definitions.html

Question No: 24 (Marks: 1) - Please choose one

In the formula, cost of asset= S_2– (F_2–F_1), what does S_2 indicate?

- ► Initial asset price
- ► Initial futures price
- ► **Final asset price**
- ► Final futures price

• Suppose that
F1 : Initial Futures Price
F2 : Final Futures Price
S2 : Final Asset Price
• Cost of Asset = $S_2 - (F_2 - F_1) = F_1$ + Basis
• You hedge the future purchase of an asset by entering into a long futures position
http://www1.american.edu/academic.depts/ksb/finance_realestate/mrobe/685/6pp/Lect_9p6.pdf

Question No: 25 (Marks: 1) - Please choose one

S & P 500 future stock index closes at $ 300 and spot price is $ 325. What is its basis?

- ► -25
- ► -30
- ► **25**

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► 30

Basis = spot price –closing price
= 325-300
= 25

Question No: 26 (Marks: 1) - Please choose one

Which of the following statement regarding hedging is **TRUE**?

► Hedging is adding securities to a portfolio to increase the overall return
► **Hedging is a strategy used by investors to reduce the risk of a portfolio**
► Hedging is a strategy used to increase both the risk and return of a portfolio
► Hedging is a strategy used to increase portfolio volatility

(lesson 42 , slide 22)Hedger: A person who uses derivatives to reduce risk that they may face in future
For investors, hedging is the practice of purchasing securities in a combination that reduces portfolio risk.
http://www.stockresearchpro.com/hedge-strategies-for-the-individual-investor

Question No: 27 (Marks: 1) - Please choose one

Which of the following statement is **FALSE** regarding options?

► Option trading thrives under volatile pricing conditions and uncertainty
► **Option contracts expire on the last Friday of the month**
► Option contracts are adjusted for stock splits and stock dividends
► A put writer exposes himself to the risk of declining stock prices

(Q# 1 , 6 , 8, 10)http://highered.mcgraw-hill.com/sites/0073405159/student_view0/chapter15/multiple_choice_quiz.html

Question No: 28 (Marks: 1) - Please choose one

Who introduced Moving Average Convergence/Divergence (MACD)?

► **Gerald Appel**
► Joseph Granville
► John Bollinger
► Welles Wilder

The MACD was developed by Gerald Appel,
http://charting.bseindia.com/charting/help/page14.asp
MACD (Moving Average Convergence-Divergence has long been one of the most popular and widely available technical indicators since it was developed by Gerald Appel in the late 1970's.
http://stockcharts.stores.yahoo.net/unmageapande.html

Question No: 29 (Marks: 1) - Please choose one

Which of the following is the reason stock prices behave the way they do at resistance lines?

► Many investors want to buy at this price
► Market makers resist moving prices lower than this price
► **Many investors want to sell at this price**
► Market makers support prices at this level

Question No: 30 (Marks: 1) - Please choose one

Which of the following is a measure of the volatility of stock prices or returns?

► ROR
► **Beta**
► ROI
► Risk premium

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Beta: A measure of the volatility of a stock relative to the overall market. A beta of less than one indicates lower risk than the market; a beta of more than one indicates higher risk than the market. NASDAQ.com uses the S&P 500 as the underlying index to measure the overall market for beta.
http://www.investopedia.com/articles/01/102401.asp#axzz1OrPt4cId
Beta measures a stock's volatility, the degree to which its price fluctuates in relation to the overall market.

Question No: 31 (Marks: 1) - Please choose one

Which of the following is defined as a standardized contract traded on a futures exchange, to buy or sell a certain underlying instrument at a certain date in the future, at a specified price?

- ► Option contract
- ► Forward contract
- ► **Future contract**
- ► Annuity contract

Futures Contract :A futures contract is a standardized contract, traded on a futures exchange, to buy or sell a standardized quantity of a specified commodity or underlying at a certain date in the future, at a price determined in advance. The future date is called the delivery date or final settlement date.
http://www.edelweiss.in/InvestorEdFnO.aspx

Question No: 32 (Marks: 1) - Please choose one

Which of the following securities do **NOT** ensures ownership in a corporation?

- ► Bonds and common stock
- ► **Bonds and preferred stock**
- ► Preferred stock and common stock
- ► Common stock and derivatives

lesson # 26 slide # 28 & 29)
Equity Securities
Denote an ownership interest in a corporation
Preferred Stocks
More like bonds.
Hybrid security because features of both debt and equity.
Preferred stockholders paid after debt but before common stockholders.
Dividend known, fixed in advance.
May be cumulative if dividend omitted.
Often convertible into common stock.
May carry variable dividend rate

Question No: 33 (Marks: 1) - Please choose one

Which of the following statement is **TRUE** about growth investors?

- ► They are patient
- ► They invest in large capitialization companies only
- ► **They seeks rapidly growing companies**
- ► They seeks slowly growing companies

Lesson # 6 slide # 10)
Growth Investment
Investors want quick return.

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A Growth investor seeks rapidly growing companies.
Growth investors believes that a body in motion tends to stay in motion. Strong companies tend to get stronger.
Growth company might not have historical perspective in background but it will find a place in the future depending on the product or industry belong.
Oil Exploration is one of the most key element in any progress in a country

Question No: 34 (Marks: 1) - Please choose one

Which of the following is **TRUE** regarding price earning ratio?

- ► P/E=Earnings available to common stockholders/outstanding shares
- ► P/E=Market price per share/dividend per share
- ► **P/E=Market price per share/earning per share**
- ► P/E=Dividend per share/earning per share

Question No: 35 (Marks: 1) - Please choose one

Which of the following statements about debt securities is **MOST** likely correct?

- ► Secured bonds are referred to as debentures.
- ► **Like T-bills commercial paper is issued as a pure discount security.**
- ► Bearer bonds are much popular in the United States.
- ► T-bills have maturities of less than one year and make explicit interest payments.

U.S. Treasury bill (T-bill) - A short-term U.S. government debt instrument issued by the U.S. Treasury.
Commercial paper - Short-term, unsecured debt issued by the largest corporations
A Pure Discount Security is an interest-bearing asset:
It makes a single payment of face value at maturity.
It makes no payments before maturity.

Question No: 36 (Marks: 1) - Please choose one

Which of the following 5-year bond has the ***highest*** interest rate risk?

- ► A floating-rate bond
- ► **A zero-coupon bond**
- ► A 5% fixed-coupon bond
- ► A 10% fixed-coupon bond

http://www.thomaswu.com/ubs/FI%20Exercise%20Marked%20Answer%2011-25-09.pdf

Question No: 37 (Marks: 1) - Please choose one

Which of the following statements regarding debentures is **MOST** accurate?

- ► Debentures are free from default risk if issued by federally related or government sponsored entities
- ► Debentures are commonly issued by government sponsored entities such as Fannie and Freddie Mac
- ► Debentures may not be issued by government sponsored entities.
- ► **Debentures are often called first mortgage bonds.**

http://www.investorsedge.cibc.com/ie/education-centre/topics/fixed-income/bonds-description.html
Reference

Question No: 38 (Marks: 1) - Please choose one

A futures contract is **LEAST** likely:

- ► Exchange traded
- ► **A contingent claim**
- ► Adjusted for profits and losses daily

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► A standardized instrument

(Q#1) http://www.palgrave.com/finance/valdez6/students/mcqs/ch13/ch13.htm

Question No: 39 (Marks: 1) - Please choose one

Which of the following is **NOT** a risk measure?

► Beta
► Standard deviation
► Variance
► **Geometric mean**

(Lesson 39 , slide 24)

- **Total risk measured by the standard deviation of portfolio returns.**
- **Non-diversifiable risk measured by a security's beta.**
  - **Estimates may vary, be unstable, and change over time.**

9. The variance or standard deviation of a stocks return is a measure of Total Risk

Question No: 40 (Marks: 1) - Please choose one

Which of the following is **LEAST** likely an example of a portfolio constraint?

► Tax concern
► Liquidity needs
► **Total return requirement of 15%**
► Regularity requirement

http://www.ebookbyte.com/admin/upload/Business/CFA2008_Corporate%20Finance,%20Portofolio%20Management,%20Markets%20and%20Equities%20L1%20%28www.eBookByte.com%29.pdf

Which of the following is least likely an example of a portfolio constraint?

A. Tax concerns.

B. Liquidity needs.

C. Total rerurn requirement of 15%.

D. Legal and regulatory requirements

1. C Return objectives are part of a policy statement's objectives, not constraints.

Question No: 41 (Marks: 1) - Please choose one

Which of the following statements regarding growth companies & growth stocks is **LEAST** accurate?

► A growth stock is one that earns above-average risk adjusted returns.
► A growth stock does not have to be the stock of a growth company.
► Management of the growth companies has the ability to choose projects with above average returns.
► **If growth opportunities are already incorporated into its prices, a growth company's stock will earn above average returns.**

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http://books.google.com.pk/books?id=pZfeJ75ZRJ0C&pg=PA784&dq=growth+stock+does+not+have+to+be+the+stock+of+a+growth+company&hl=en&ei=ErPzTcfrK4Sc-wbB_qn6Bg&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCkQ6AEwAA#v=onepage&q=growth%20stock%20does%20not%20have%20to%20be%20the%20stock%20of%20a%20growth%20company&f=false

http://books.google.com.pk/books?id=1rN-ADFek2AC&pg=PA167&dq=Management+of+the+growth+companies+has+the+ability+to+choose+projects+with+above+average+returns.&hl=en&ei=9rbzTYvcBsrz-gaVs_TmBg&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCkQ6AEwAA#v=onepage&q=If%20a%20company%20is%20a%20growth%20company%2C%20we%20expect%20it%20to%20have%20numerous%20opportunities%20to%20invest%20in%20projects%20which%20will%20produce%20high%20returns%20and%2C&f=false

A growth company is one that consistently selects projects that earn higher returns than required for their level of risk.
A growth stock is one that earns above-normal risk-adjusted returns
Rationale: A growth stock is one that earns below-average risk adjusted returns
Question No: 42 (Marks: 1) - Please choose one
The top-down approach to security selection is **LEAST** likely to include:
- ► Analysis of the global & national economic environment
- ► Use of financial ratios & cash flow analysis to compare firms within the industry
- ► Determination of the stability of securities for an investor's portfolio
- ► **Identification of the industry effects of changes in demographics, lifestyles, politics etc**

Paper 5

FINALTERM EXAMINATION
Spring 2009
FIN630- Investment Analysis & Portfolio Management (Session - 1)
Marks: 81

Question No: 1 (Marks: 1) - Please choose one
The price at which a security dealer sells a security is known as:
Bid price
Market price
Offer price
Order price
Question No: 2 (Marks: 1) - Please choose one
_____ is a temporary restriction on program trading in a particular security or
market, usually to reduce dramatic price movements.
SuperDot
NYSE direct
Trading curb
Ticker tape
A temporary restriction on program trading in a particular security or market, usually to reduce dramatic price movements. Also known as a collar or circuit breaker..

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http://www.investopedia.com/terms/t/tradingcurb.asp
http://www.investhub.com/glossary/trading-curb.htm
Question No: 3 (Marks: 1) - Please choose one
A brokerage account in which broker lends the customer cash to purchase securities is
called:
Margin account
Cash account
IRA account
Option account
http://www.investopedia.com/terms/m/marginaccount.asp
Question No: 4 (Marks: 1) - Please choose one
The Dow theory use _____ to follow three major types of market movements.
Charting (not sure)
Key indicators
Fundamental analysis
Technical analysis
Question No: 5 (Marks: 1) - Please choose one
Which of the following is defined as a procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value?
Relative Strength Index
On Balance Volume
Dividend Discount Model
Bollinger bands
Question No: 6 (Marks: 1) - Please choose one
When inflation and interest rates are low, Price per Earning (P/E) ratio tend to be:
High
Low
Minimum
Average
(Page 94) P/E ratios are generally depressed when the interest rates and the rates of inflation are high, such as around 1980-81. P/E ratios tend to be high when inflation and interest rates are low, such as the period of the mid –to-late-1990s, when P/E ratios were at quite high levels by historical standards.
Question No: 7 (Marks: 1) - Please choose one
Which of the following is EXCLUDED from Porter s competitive factors?
Substitute products or services
Changes in the economy
Bargaining power of buyers
Rivalry between existing competitors
Question No: 8 (Marks: 1) - Please choose one
Which of the following is a basket of stocks that tracks a particular sector, investment
style, geographical area, or the market as a whole?
Exchange traded fund
Open-end fund
Closed-end fund
Unit investment trust
(page 135) An ETF is a basket of stocks that tracks a particular sector, investment style, geographical area, or the market as a whole.

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Question No: 9 (Marks: 1) - Please choose one
If an investor wants to avoid transaction costs, which of the following strategy should he select?
Active strategy
Defensive strategy
Buy and hold strategy
Sector rotation
(page 138)Buy-And-Hold Strategy:
A buy-and-hold strategy means exactly that an investor buys stocks and basically holds them until some future time in order to meet some objective. The emphasis is on avoiding transaction costs, additional search costs, and so forth.
Question No: 10 (Marks: 1) - Please choose one
Which of the following is the annual net income from an average investment expressed as a percentage of average amount invested?
Net asset value
Return on equity
Return on average investment (ROI)
Discounted value
Ref: Return On Investment (ROI) is the average annual net income from an outlay expressed as a percentage of average amount invested.
(page 291)
http://books.google.com/books?id=fsH2d38ibOoC&pg=PA291&lpg=PA291&dq=Return+on+average+investment+is+the+annual+net+income+from+an+average+investment+expressed+as+a+percentage+of+average+amount+invested&source=bl&ots=toCxk9zlei&sig=uuoBAntVziIR46SvV5CdKwGjhS4&hl=en&ei=TDv0Tam2NYyzrAeswp3ZBg&sa=X&oi=book_result&ct=result&resnum=6&ved=0CD4Q6AEwBQ#v=onepage&q=Return%20on%20average%20investment%20is%20the%20annual%20net%20income%20from%20an%20average%20investment%20expressed%20as%20a%20percentage%20of%20average%20amount%20invested&f=false
Question No: 11 (Marks: 1) - Please choose one
Which of the following would justify an investor preference for cash dividends?
Illusion of control
Anchoring
Mental accounting
Asset segregation
http://highered.mcgraw-hill.com/sites/0073405175/student_view0/chapter9/multiple_choice_quiz.html
Q#5
Mental accounting holds that investors segregate funds into mental accounts (e.g., dividends and capital gains), maintain a set of separate mental accounts, and do not combine outcomes; a loss in one account is treated separately from a loss in another account. Mental accounting leads to an investor preference for dividends over capital gains and to an inability or failure to consider total return.

Question No: 12 (Marks: 1) - Please choose one
Which of the following is NOT a "value-weighted" index?
NYSE Composite Index
Dow-Jones Industrial Average
NASDAQ Composite Index

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Standard & Poor's 500 Index
Ref: page 159 & 160)The S&P 500 Composite is probably the most widely used. This value-weighted index contains 500 NYSE-traded securities.
The S&P 500 Composite Index is a value-weighted index created by Standard & Poor's.
http://www.crsp.com/products/indices.htm
Examples of cap-weighted indexes include the Standard & Poor's 500 Index and the NASDAQ Composite Index.

Ironically, the most widely quoted index, the Dow Jones Industrial Average, relies on the most curious method of calculation. The Dow, as it is widely referred to, is price-weighted. Thus, higher-priced stocks receive more weight in this index than lower-priced stocks.
http://www.securitystockwatch.com/InvestmentGuides/Stock_Market_Index.html
The *NYSE Composite Index* - (NYSE) is a market value-weighted index
NASDAQ Composite Index -

> **The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The Index is market-value weighted.**

http://www.nasdaq.com/reference/glossary.stm

Question No: 13 (Marks: 1) - Please choose one
Which of the following focuses on how investors interpret and act on information to make informed investment decisions?
Dividend discount model
Efficient market hypothesis
Dow Theory
Behavioral finance
Ref: http://www.slideshare.net/Zorro29/behavioral-finance-4683109 (slide 1)
Question No: 14 (Marks: 1) - Please choose one
Which of the following is expressed as index number relative to a base index value of 10?
Dow-Jones Industrial Average
NASDAQ Composite Index
Standard & Poor's 500 Index
NYSE Composite Index

- Standard & Poor's Composite Index
  - Composed of 500 "large" firm stocks
  - Expressed as index number relative to a base index value of 10

Securities Markets (slide 12)

The Standard & Poor's 500 Index is calculated using a base-weighted aggregate methodology; that means the level of the Index reflects the total market capitalization of all 500 component stocks relative to a particular base period. The S&P 500's base period is 1941-43. The actual total market value of the stocks in the Index during the base period has been set equal to an indexed value of 10. This is often indicated by the notation 1941-43=10.
http://www.wikinvest.com/index/S%26P_500_%28SPX%29

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Question No: 15 (Marks: 1) - Please choose one
Which of the following is NOT included in money market securities?
Treasury Bill
Certificate of deposit
Commercial paper
Future
(page 113) money market holdings, short-term government bonds or Treasury bills, marketable securities and commercial paper
Ref: Money-market securities are liquid, marketable, safe investments that have maturities of one year or less. They are used, generally, for emergency funds investments and short-term cash. Examples of this type of investment are certificates of deposits (CDs), money-market mutual funds, treasury bills, commercial papers, banker's acceptances, and purchase agreements.
http://www.beginnermoneyinvesting.com/html/investing_in_money-market_secu.htm
Question No: 16 (Marks: 1) - Please choose one
Which of the following is an example of a non-marketable security?
Treasury bill
Negotiated CD
U.S. Government savings bond
Banker s acceptance
Ref:
Government Bond Basics, II.
Non-marketable securities include U.S. Savings Bonds, Government Account Series, and State and Local Government Series.
Slide 1 - Cameron School of Business
Question No: 17 (Marks: 1) - Please choose one
Which of the following statement is TRUE about yield to maturity?
Yield to maturity is inversely related to bond price
Yield to maturity is always less than the yield to call
Yield to maturity will be less than the current yield
Yield to maturity tends to fall with a rise in duration

The inverse relationship

A bond's price and a bond's yield are inversely related; that is to say, when a bond's price falls its yield rises and vice-versa. http://www.financial-guide.ch/ica/markets/bonds/what_are_bonds/wcda5.html

http://www.oswego.edu/~edunne/340ch6part1.htm

Question No: 18 (Marks: 1) - Please choose one
Which of the following statement is TRUE about yield to maturity?
Yield to maturity is inversely related to bond price
Yield to maturity is always less than the yield to call
Yield to maturity will be less than the current yield for bonds purchased at a discount
Yield to maturity tends to fall with a rise in duration
The inverse relationship

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A bond's price and a bond's yield are inversely related; that is to say, when a bond's price falls its yield rises and vice-versa. http://www.financial-guide.ch/ica/markets/bonds/what_are_bonds/wcda5.html
http://www.moneychimp.com/articles/finworks/fmbondytm.htm

Question No: 19 (Marks: 1) - Please choose one

Which of the following statement is TRUE regarding bond prices?

Bond prices are expressed as a percentage of discounted value
Bond prices are expressed as a percentage of par value
Bond prices are expressed as a percentage of future value
Bond prices are expressed as a percentage of intrinsic value
***Bond pricing* is *expressed as a percentage of par*.**
http://www.ehow.com/info_8181460_valuation-fixedincome-securities.html
Question No: 20 (Marks: 1) - Please choose one
The value of the bond is NOT directly tied to the value of which of the following assets?
Real assets of the business
Liquid assets of the business
Fixed assets of the business
Long term assets of the business
Question No: 21 (Marks: 1) - Please choose one
Which of the following is known as speculative bond?
Government bond
Municipal bond
Sovereign bond
Junk bond
Ref: Junk Bond
A bond rated 'BB' or lower because of its high default risk. Also known as a "high-yield bond" or "speculative bond".
http://www.investopedia.com/terms/j/junkbond.asp
Question No: 22 (Marks: 1) - Please choose one
Bond horizon premium is the difference between which of the following types of securities?
Long- and short-term government securities
Stock and risk-free returns
Equity and shot-term government securities
None of the given options
(lesson 32 slide 31) Bond horizon premium is the difference between long- and short-term government securities.

Bond horizon premium is the difference between long- and short-term government securities
http://www.google.com.pk/search?sclient=psy&hl=en&source=hp&q=A+bond+rated+%27BB%27+or+lower+because+of+its+high+default+risk.+Also+known+as+a+%22high-yield+bond%22+or+%22speculative+bond&aq=f&aqi=&aql=&oq=&pbx=1&biw=800&bih=401&cad=cbv#sclient=psy&hl=en&source=hp&q=Bond+horizon+premium+i

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s+the+difference+between++Long-+and+short-term+government+securities&aq=f&aqi=&aql=&oq=&pbx=1&fp=8a1923a37fd34498&biw=800&bih=401

PPT(Risk)

Question No: 23 (Marks: 1) - Please choose one

The market value of a company stock has declined due to competition in the market. The investors of this company are faced with what type of risk?

Financial risk

Market risk

Interest rate risk

Business risk

Question No: 24 (Marks: 1) - Please choose one

Which of the following bond redeems the principal amount at maturity and pays no periodic income?

Municipal bond

Corporate bond

Junk bond

Zero coupon bond

Zero coupon bonds pay no periodic interest. The bonds are purchased at a discount and redeemed for the full face value at maturity. Generally, investors must pay income tax on interest accrued annually on zero coupon bonds even though no cash interest payments are received. Investors should consult a tax professional for additional information.

https://personal.vanguard.com/us/content/Funds/FixIncCorpBondsContent.jsp

Question No: 25 (Marks: 1) - Please choose one

Diversifying without looking at relevant investment characteristics is known as:

Random diversification

Non-random diversification

Horizontal diversification

Vertical diversification

Random diversification

– Diversifying without looking at relevant investment characteristics

– Marginal risk reduction gets smaller and smaller as more securities are added

http://golum.riv.csu.edu.au/~hskoko/subjects/fin221/lect03.pdf

Question No: 26 (Marks: 1) - Please choose one

Which of the following statement is FALSE about efficient portfolio?

An efficient portfolio provides greatest expected return for a given level of risk

Investors can identify efficient portfolios by specifying an expected portfolio return

Investors can identify efficient portfolios by maximizing the portfolio risk

Efficient portfolio risks are measured by the standard deviation

Investors can identify efficient portfolios by specifying an expected portfolio return and minimizing the portfolio risk at this level of return. Alternatively, they can specify a portfolio risk level they are willing to assume and maximize the expected return on the portfolio for this level of risk.

http://www.thefinanceconcept.com/2011/06/when-does-diversification-pay.html

http://www.optimaltrader.net/portfolio_theory.htm

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(page 84) **http://books.google.com/books?id=X0-CAlmZd34C&pg=PA84&dq=Efficient+portfolio+risks+are+measured+by+the+standard+deviation&hl=en&ei=8cD1TfKRBM_trQeO55zJBg&sa=X&oi=book_result&ct=result&resnum=8&ved=0CE0Q6AEwBw#v=onepage&q=efficient%20portfolio%20is%20measured&f=false**

Question No: 27 (Marks: 1) - Please choose one
Which of the following statement is CORRECT?
One hundred stocks are required to eliminate the bulk of the diversifiable risk from a portfolio
Standard deviation measures diversifiable risk
The number of stocks needed to highly diversify a portfolio is constant over time
A fully diversified portfolio still contains undiversifiable risk
the risk of a well-diversified portfolio is market risk, or systematic risk, which is non-diversifiable.
(page 197)Systematic Risk is an investor can construct a diversified portfolio and eliminate pan of the total risk, the diversifiable or non-market part.
(page208)http://books.google.com/books?id=wXqibnOsISgC&pg=PA208&dq=Systematic+Risk+is+also+known+as+undiversifiable+risk.+Well+diversified+portfolios+only+contain+systematic+risk&hl=en&ei=5dr1TeqnK4PjrAfQg43MBg&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCkQ6AEwAA#v=onepage&q&f=false

(Q#5)http://highered.mcgraw-hill.com/sites/0073382353/student_view0/chapter11/quiz.html

Question No: 28 (Marks: 1) - Please choose one
Which of the following statement is TRUE regarding efficient frontier?
It is a downward sloping curved line
It is an upward sloping straight line
It is a downward sloping straight line
It is an upward sloping curved line
http://web.ku.edu/~finmhir/FIN410/EXAMS/htm/key991s.htm Q#93)
Question No: 29 (Marks: 1) - Please choose one
When beta of a security >1.0, it indicates that:
Security is more risky than the market
Security is less risky than the market
Security is as risky as the market
Security is not risky at all
(Handout page 137) A stock with a beta lower than 1.0 has a required rate of return below k_M, because its risk (beta) is less than that of the market. On the other hand, a stock with a beta greater than 1.0 has a required rate of return greater than that of the market.
Question No: 30 (Marks: 1) - Please choose one
A bond will sell at a discount when _____.
The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
The coupon rate is greater than yield to maturity
The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

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The coupon rate is less than the current yield and the current yield is less than yield to maturity

Bond sell at:

Discount = Coupon Rate < Current Yield < YTM

http://www.moneychimp.com/articles/finworks/fmbondytm.htm

(page 178)

Note that for bonds selling at a discount, the yield to maturity will always be greater than the current yield because of the capital gain an investor receives when the bond matures at par value.

Question No: 31 (Marks: 1) - Please choose one

The _____ is a measure of the average rate of return an investor will earn if the investor buys the bond now and holds until maturity.

Current yield

Dividend yield

P/E ratio

Yield to maturity

(Q#11)

http://www.letu.edu/people/juancastro/Finance_files/Advanced%20Finance/Internet%20Exam%20Practices/Exam%20Practice%20%20Chapters%2014-16%20-BONDS.html

Question No: 32 (Marks: 1) - Please choose one

Nominal rate of interest - inflation is equal to which of the following?

Interest amount

Nominal interest

Risk premium

Real rate of interest

The "real interest rate" is approximately the nominal interest rate minus the inflation rate

http://en.wikipedia.org/wiki/Real_interest_rate

Question No: 33 (Marks: 1) - Please choose one

The APT was developed in 1976 by _____.

Lintner

Modigliani and Miller

Ross

Sharpe

(page 5) Arbitrage Pricing Theory (APT) was developed by Ross (1976) and enhanced by others.

http://www.auburn.edu/academic/forestry_wildlife/forest_policy_ctr/zhang/fpc109-zhang-arbitrage.pdf

Question No: 34 (Marks: 1) - Please choose one

Which of the following is a financial instrument whose return is derived from the return on another instrument?

Derivative security

Fixed income security

Equity security

Money market security

(lesson 40 slide 20)A derivative is a financial instrument whose return is derived from the return on another instrument.

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A derivative is a financial instrument that offers a return based on the return of some other underlying asset. In this sense, its return is derived from another instrument
http://www.analystnotes.com/notes/los_detail.php?id=1419
Question No: 35 (Marks: 1) - Please choose one
Which of the following is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flows?
Foreign currency swap
Total return swap
Credit default swap
Interest rate swap
An interest rate swap is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flows.
http://en.wikipedia.org/wiki/Interest_rate_swap
http://www.idbny.com/foreign-exchange.php
Question No: 36 (Marks: 1) - Please choose one
Which of the following is a commodity/security market in which goods are sold and delivered immediately?
Spot market
Forward market
Laissez-faire market
Future market
http://www.websters-online-dictionary.org/definitions/Spot+market?cx=partner-pub-0939450753529744%3Av0qd01-tdlq&cof=FORID%3A9&ie=UTF-8&q=Spot+market&sa=Search#906
The spot market or cash market is a commodities or securities market in which goods are sold for cash and delivered immediately.
http://personal.lut.fi/wiki/lib/exe/fetch.php/en/technomathematics/time_series_research/start/ornstein-uhlenbeck_process.pdf
Question No: 37 (Marks: 1) - Please choose one
Which of the following statement is FALSE regarding forward contracts?
Forward contracts are traded on over- the-counter market
There is no surety/guarantee of the trade settlement
There are no pre determined standards in future contracts
Forward contracts involve a process known as making to market
(Lesson 40 and 41 slides)

- **A *forward contract* is functionally similar to a futures contract, however:**
  - **There is no marking to market.**
  - **Forward contracts are not marketable.**
- **Forward Contract:**
  - **Traded in Over-the-Counter Market.**
  - **It is an agreement to buy or sell an asset at a certain future time for a certain price.**

Forwards	**Futures**
Private contract between 2 parties	**Exchange traded**
Non-standard contract	**Standard contract**

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Usually one specified delivery date	**Range of delivery dates**
Settled at end of contract	**Settled daily**
Delivery or final cash settlement usually occurs	**Contract usually closed out prior to maturity**
Some credit risk	**Virtually no credit risk**

Question No: 38 (Marks: 1) - Please choose one
Which of the following refers to the simultaneous purchase and sale in two markets so that the selling price is higher than the buying price by more than the transaction cost?
Hedging
Arbitrage
Speculation
Brokerage
Ref: Arbitrage refers to the simultaneous purchase and sale in two markets so that the selling price is higher than the buying price by more than the transaction cost, so that the arbitrageur makes risk-less profit.
http://www.commodityprofit.com/faq.html
Question No: 39 (Marks: 1) - Please choose one
Which of the following statement is FALSE regarding short hedge?
The value of short hedge contracts is equal the value of the stock portfolio
A short futures hedge is appropriate when you know you will purchase an asset in the future and want to lock in the price
A short futures hedge is appropriate when you know you will sell an asset in the future & want to lock in the price
A short hedge reduces or possibly eliminates the risk taken in a long position
www.pro-prosperity.com/UIC/Ch03HullFundamentals5thEd.ppt
A long futures hedge is appropriate when you know you will purchase an asset in the future and want to lock in the price
A short futures hedge is appropriate when you know you will sell an asset in the future & want to lock in the price

(Handout page 251)A short hedge reduces, or possibly eliminates, the risk taken in a long position
Question No: 40 (Marks: 1) - Please choose one
S & P 500 future stock index closes at $ 300 and spot price is $ 325. What is its basis?
-25
-30
25
30
Basis = spot price – future price
= 325 -300
= 25
Question No: 41 (Marks: 1) - Please choose one
Secondary trend in Dow Theory is known as _____.
Triangle

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Wave
Tide
Rounded bottom

- **Secondary Trend**
  - **Called "the waves" by Dow, this is shorter-term departures from the primary trend (weeks to months).**

Question No: 42 (Marks: 1) - Please choose one
Which of the following is TRUE about profitability ratios?
Profitability ratios are designed to measure a business's ability to generate earnings
Profitability ratios are designed to measure the quality of a company's operations
Profitability ratios are designed to measure a company's ability to cover its short term obligations
Profitability ratios are designed to measure the percentage of earnings paid to shareholders

- **Profitability is often measured in percentage terms in order to facilitate making comparisons of a company's financial performance against past year's performance and against the performance of other companies.**

http://www.icapb2b.gr/b2b_web/CMSContent/FINANCIAL_RATIOS.pdf
Profitability ratios are designed to evaluate the firm's ability to generate earnings. Analysis of profit is of vital concern to stockholders since they derive revenue in the form of dividends.

Paper 6

FIN630 FINAL TERM

Which of the following is an example of a financial asset?
Factories
Options
Commercial properties
Gold
http://books.google.com.pk/books?id=8jfV6nntNPkC&pg=PA7&dq=Options+is+an+example+of+a+financial+asset?&hl=en&ei=eaf0TcWVIoKg-AbNsfnxBg&sa=X&oi=book_result&ct=result&resnum=4&ved=0CDcQ6AEwAw#v=onepage&q=An%20example%20of%20this%20financial%20asset%20type%20is%20the%20%27option%27&f=false
The price at which a security dealer sells a security is known as:
Bid price
Market price
Offer price
Order price
Slide (lect#2)
Bid price – highest price at which anyone is willing to buy.
Offer (Ask) price – lowest price at which anyone is willing to sell.
Difference between the two prices is the **spread.**

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Ask price

A dealer's price to sell a security; also called the offer price.

_____ is a temporary restriction on program trading in a particular security or market, usually to reduce dramatic price movements.

SuperDot
NYSE direct
Trading curb
Ticker tape
What Does *Trading Curb* Mean?
A temporary restriction on program trading in a particular security or market, usually to reduce dramatic price movements. Also known as a collar or circuit breaker.
http://www.investopedia.com/terms/t/tradingcurb.asp

_____ might not have historical perspective in background but it will find a place in the future depending on the product or industry.
Growth company
Value company
Large cap company
Small cap company

Slide (Lesson#6)

Growth company might not have historical perspective in background but it will find a place in the future depending on the product or industry belong.

The primary purpose of the liquidity ratios is to determine:

The amount of working capital tied up in inventory
The ability of a firm to pay off short-term obligations
The relative level of short-term debt
The amount of earnings paid to shareholders

Which of the following statement is TRUE?
SIC codes have 10 divisions
SIC codes have 11 divisions
SIC codes have 15 divisions
SIC codes have 9 divisions
Page#97
SIC codes have 11 divisions,
Mutual funds pool the funds of savers and can be used to buy _____.
Shares in mutual savings banks only
A variety of financial instruments
Shares in the Federal Reserve System
None of the given options

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(Q#6)http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter1/quiz_2.html

The concept that it is not possible to consistently outperform the market by using any information that the market already knows, except through luck refers to which of the following?
Dow theory
Dividend discount model
Efficient market hypothesis
Prospect theory
The efficient market hypothesis states that it is not possible to consistently outperform the market by using any information that the market already knows, except through luck.
http://www.moneyscience.com/Information_Base/The_Efficient_Markets_Hypothesis_%28EMH%29.html

Which of the following index is computed by adding the collective market capitalizations of its members and dividing it by the number of securities in the index?
Price Weighted-Index
Capitalization Weighted-Index
Unweighted Index
Volume Weighted Index
Capitalization-Weighted Index

- A type of market index whose individual components are weighted according to their market capitalization, so that larger components carry a larger percentage weighting. The value of a capitalization-weighted index can be computed by adding up the collective market capitalizations of its members and dividing it by the number of securities in the index.

http://www.dailyfinance.com/glossary/Weighted

Which of the following statement is CORRECT?

The sensitivity of a coupon bond price to a change in its yield is constant whether yield to maturity increases or decreases

The sensitivity of a coupon bond price to a change in its yield is inversely related to the bond's yield to maturity

The sensitivity of a coupon bond price to a change in its yield is directly related to the bond's yield to maturity

The sensitivity of a coupon bond price to a change in its yield is greater for increases in yield to maturity

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http://wiki.answers.com/Q/What_is_the_relationship_between_interest_rates_and_bond_prices

Which of the following measures the sensitivity of an asset's price to interest rate movements, expressed as a number of years?
Duration
Yield to maturity
Convexity
Immunization
Bond duration — In finance, the duration of a financial asset measures the sensitivity of the asset s price to interest rate movements, expressed as a number of years. The reason for expressing this sensitivity in years is that the time that will elapse until a…
http://universalium.academic.ru/83867/bond_immunization

Which of the following statement is FALSE regarding bond duration?
Bond duration is inversely related to coupon rate
Duration of a zero-coupon bond equals its time to maturity
Holding maturity constant, a bond's duration is higher when the coupon rate is lower
Duration is longer than maturity for all bonds except zero coupon bonds

- Duration is shorter than maturity for all bonds except zero coupon bonds

Rule 1 The duration of a zero-coupon bond equals its time to maturity
Rule 2 Holding maturity constant, a bond's duration is higher when the coupon rate is lower
http://www.google.com.pk/#sclient=psy&hl=en&source=hp&q=Holding+maturity+constant%2C+a+bond%E2%80%99s+duration+is+higher+when+the+coupon+rate+is+lower&aq=f&aqi=&aql=f&oq=&pbx=1&fp=57d11162c2f83c8f&biw=800&bih=401
(PPT)

Which of the following is referred to as risk-free bond?
Government bond
Municipal bond
Sovereign bond
Junk bond
Government bonds are usually referred to as risk-free bonds,
http://en.wikipedia.org/wiki/Government_bond

The risk inherent to the entire market or entire market segment is known as:
Systematic risk
Issuer risk
Specific risk
Nonsystematic risk
Systematic Risk - The risk inherent to the entire market or entire market segment.
http://en.mimi.hu/business/systematic_risk.html

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Which of the following measures the compound growth rate over time?
Geometric mean
Standard deviation
Arithmetic mean
Correlation coefficient
The *geometric mean* can compute this *compounded growth rate over* multiple periods
http://docs.google.com/viewer?a=v&q=cache:wTqJnrla5CAJ:www.stephenvopni.com/uploads/4/1/3/6/4136271/vopni_2039_-_corporate_finance_assignment_1.docx+Which+of+the+following+measures+the+compound+growth+rate+over+time%3F+Geometric+mean+Standard+deviation+Arithmetic+mean+Correlation+coefficient&hl=en&gl=pk&pid=bl&srcid=ADGEESh00tz1-8ie-qREZkCYn_NrQ0EkDkqyGl2ThaoPUuWEqxmOHpyle2I2NHGWqG1KtGmcS2PAMv-rgNszl9ukGWJas5TlprwsPycL6d6nfLJREkrwd1SohEFZXxd_iIbdZB-L6F-F&sig=AHIEtbQUUfK0Km4xLANxgT8PW4iGHDK_mA

http://books.google.com.pk/books?id=MHGBnZNm5UgC&pg=PA376&dq=The+geometric+mean+can+compute+this+compounded+growth+rate+over+multiple+periods&hl=en&ei=m8D0TcrPA4rm-gbsqMmJBw&sa=X&oi=book_result&ct=result&resnum=10&ved=0CFUQ6AEwCTgK#v=onepage&q=rate%20of%20growth%20in%20earnings%20over%20a%20period%20of%20several%20years&f=false

All of the following statements concerning unsystematic risk are correct EXCEPT:
It cannot be reduced by diversification
It is the portion of total risk unique to the particular firm
It may be affected by the competence of the firm's management
Such risk may be independent of factors affecting other industries
The amount of unsystematic risk can be reduced through appropriate diversification.
http://www.investopedia.com/terms/u/unsystematicrisk.asp

Which of the following risk is avoidable through proper diversification?
Portfolio risk
Systematic risk
Nonsystematic risk
Total risk
The amount of unsystematic risk can be reduced through appropriate diversification.
http://www.investopedia.com/terms/u/unsystematicrisk.asp
http://web.utk.edu/~jwachowi/mcquiz/mc5.html
Q#1
Markowitz diversification is based on:
Random diversification
Non-random diversification
Horizontal diversification
Vertical diversification
http://golum.riv.csu.edu.au/~hskoko/subjects/fin221/lect03.pdf

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Which of the following is defined as a line that graphs the systematic, or market, risk versus return of the whole market at a certain time and shows all risky marketable securities?

Security market line
Capital market line
Budget line
Value line
What Does *Security Market Line - SML* Mean?
A line that graphs the systematic, or market, risk versus return of the whole market at a certain time and shows all risky marketable securities.
http://www.investopedia.com/terms/s/sml.asp

When beta of a security >1.0, it indicates that:
Security is more risky than the market
Security is less risky than the market
Security is as risky as the market
Security is not risky at all

When beta of a security <1.0, it indicates that:
Security is more risky than the market
Security is less risky than the market
Security is as risky as the market
Security is not risky at all

The exploitation of security mispricing in such a way that risk-free economic profits may be earned is called _____.
Zero
Negative
All of the given options
Positive
The exploitation of security mispricing in such a way that risk-free economic profits may be earned is called _____.

A) arbitrage
B) capital asset pricing
C) factoring
D) fundamental analysis
E) none of the above

Answer: A Difficulty: Easy
Rationale: Arbitrage is earning of positive profits with a zero (risk-free) investment.

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Other ref
http://bodie.pageout.net/page.dyn/instructor/assessment/display_assessment?quiz_id=414425

The APT was developed in 1976 by _____.
Lintner
Modigliani and Miller
Ross
Sharpe
http://bodie.pageout.net/page.dyn/instructor/assessment/display_assessment?quiz_id=414425

The _____ provides an unequivocal statement on the expected return-beta relationship for all assets, whereas the _____ implies that this relationship holds for all but perhaps a small number of securities.
APT, CAPM
APT, OPM
CAPM, APT
CAPM, OPM
REF:
12. The _____ provides an unequivocal statement on the expected return-beta relationship for all assets, whereas the _____ implies that this relationship holds for all but perhaps a small number of securities.
A. APT, CAPM
B. APT, OPM
C. CAPM, APT
D. CAPM, OPM
E. none of the above

The CAPM is an asset-pricing model based on the risk/return relationship of all assets. The APT implies that this relationship holds for all well-diversified portfolios, and for all but perhaps a few individual securities.

Difficulty: Moderate

Which of the following is a strategy of monitoring and offsetting various risk factors in an investment portfolio with the aim of stabilizing investment returns?
Portfolio management
Project management
Risk management
Investment management
Riskmanagement
The monitoring and controlling of various risk factors in an investment portfolio with the aim of minimising volatility of investment returns.
http://en.mimi.hu/business/risk_management.html

Which of the following are regulated by Commodity Futures Trading Commission (CFTC)?
Options

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Futures
Swaps
Forwards
Ref: Slide (Lesson#41)
Futures contracts are regulated by the Commodity Futures Trading Commission (CFTC).

Which of the following is defined as a trader, who trades or takes position without having exposure in the physical market, with the sole intention of earning profit?
Hedger
Arbitrager
Speculator
Broker
A trader, who trades or takes position without having exposure in the physical market, with the sole intention of earning profit is a speculator.
http://www.commodityprofit.com/faq.html
Program trading calls for which of the following?
Computerized trigger points for trades
The use of short hedge position
The use of only call option
The use of long hedge position
(Page 255) Program trading involves the use of computer-generated orders to coordinate buy and sell orders for entire portfolios based on arbitrage opportunities.
(Q#15)http://highered.mcgraw-hill.com/sites/0073405159/student_view0/chapter17/multiple_choice_quiz.html

Which of the following statement is FALSE regarding short hedge?
The value of short hedge contracts is equal the value of the stock portfolio
A short futures hedge is appropriate when you know you will purchase an asset in the future and want to lock in the price
A short futures hedge is appropriate when you know you will sell an asset in the future & want to lock in the price
A short hedge reduces or possibly eliminates the risk taken in a long position
www.pro-prosperity.com/UIC/Ch03HullFundamentals5thEd.ppt
A long futures hedge is appropriate when you know you will purchase an asset in the future and want to lock in the price
A short futures hedge is appropriate when you know you will sell an asset in the future & want to lock in the price

(Handout page 251)A short hedge reduces, or possibly eliminates, the risk taken in a long position
Which of the following hedge involves an additional source of basis risk due to the difference between the asset being hedged and the asset underlying the futures?
Long hedge
Short hedge
Cross hedge
Stack hedge

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(page 625)
http://books.google.com.pk/books?id=DT0nnLDMYTgC&pg=PA625&lpg=PA625&dq=cross+hedge+involves+an+additional+source+of+basis+risk+due+to+the+difference+between+the+asset+being+hedged+and+the+asset+underlying+the+futures&source=bl&ots=g5ZCrU0Xwn&sig=5V9vgeDz3h_6xERgGMW2aqmKUBY&hl=en&ei=VZf0TaupAYi5hAeig_TzBg&sa=X&oi=book_result&ct=result&resnum=2&ved=0CBwQ6AEwAQ#v=onepage&q=cross%20hedge%20involves%20an%20additional%20source%20of%20basis%20risk%20due%20to%20the%20difference%20between%20the%20asset%20being%20hed&f=false

S & P 500 future stock index closes at $ 275 and spot price is $ 230. What is its basis?
40
45
50
55
Basis is the difference between spot and future price. So,275-230=45
At the NYSE, the auction process for each listed stock is assigned to which of the following?
Specialist
Broker
Dealer
Member
(page 8) The specialist system is a distinctive feature of the NYSE and the AMEX
An investor will purchase shares of companies in the development stage for:
Current income
Current income and capital gains
Passive losses to offset other income
Capital gains only
Creditor's claim on the assets of a company is known as:
Liability
Equity
Common Stock
Dividend

Claims are divided into two categories:

- **Creditors' claims that are called *liabilities***
- **Owners' claims that are called *equity***

http://simplestudies.com/introduction-to-accounting.html/page/3

Which of the formula is TRUE for calculating retained earnings?
Retained Earnings = Net Earnings – Dividends
Retained Earnings = Net Earnings + Long term debt
Retained Earnings = Net Earnings + Short term debt

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Retained Earnings = Net Earnings + Dividend

(Slide # 41) Retained Earnings:

- **Retained earnings are the amount of money that a company keeps for future use or investment.**
- **Another way to look at it is as the earnings left over after dividends are paid out.**

Retained Earnings = Net Earnings - Dividends

Which of the following is NOT a test of semi-strong form efficiency?

Stock splits

Accounting changes

Dividend announcements

Insider transactions

(Slide 16 lesson 23)Semi-strong Form Evidence

Announcements and news:

- Little impact on price after release.

Initial public offerings:

- Only issues purchased at offer price yield abnormal returns.

Accounting changes:

- Quick reaction to real change in value.

Stock splits:

- Implications of split reflected in price immediately following the announcement

(page 146) Studies have investigated the extent to which people can profit by acting on various corporate announcements such as stock splits, cash dividends, and stock dividends

When the bond approaches its maturity, the market value of the bond approaches to which of the following?

Intrinsic value

Book value

Par value

Historic cost

http://www.auditservices.com/ciabonds.html

Page#163

The par value (face value) of most bonds is 'will use this number as the amount to be repaid at maturity.

The value of a bond is directly derived from which of the following?

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

A coupon bond is a bond that?

Pays interest on a regular basis

Does not pay interest on a regular basis but pays a lump sum at maturity

Can always be converted into a specific number of shares of common stock in the issuing company

Can always be converted into a specific number of shares of preffered stock in the issuing

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Company

(Q#4)http://highered.mcgraw-hill.com/sites/007338237x/student_view0/chapter14/multiple_choice_quiz.html

The smaller the coupon of a bond,(other things being equal), the duration of bond will be:

Equal

There is no connection between two

Greater

Smaller

Duration is inversely related to the coupon of a bond- the higher the coupon, the lower the duration for a given maturity.

http://www.efmoody.com/investments/bondreturns.html

The percentage of the purchase price of securities that an investor must pay with his or her own cash is known as:

Margin call

Maintenance margin

Initial margin

SPAN margin

http://www.investopedia.com/terms/i/initialmargin.asp

Which of the following is a characteristic of line chart?

It is efficient in showing more details

It is simplest and most familiar chart

It show the highest degree of accuracy

It can be used for comparing three values

Which of the following is LEAST likely an assumption behind the semi-strong form of the EMH?

In regard to timings, news and announcements are independent of each other.

All information is cost free and available to everyone at the same time.

Investors adjust their expectations rapidly when confronted with new information.

Investors cannot achieve abnormal returns using fundamental analysis.

(Q#8)http://bbs.cfaspace.com/thread-77479-1-1.html

The implication of the Weak-form EMH is that:

All public and private information is rapidly incorporated into security prices

Technical analyst can make excess returns on filter rules but not runs rules

There should not be any relation between past price changes & future price changes

The investors cannot achieve abnormal returns using fundamental analysis

(Q#1)Question 1

Autocorrelation tests & tests of predictive power of earnings surprises apply to which forms of the EMH?

	Autocorrelation	Earnings surprises
1.	**Semi-strong**	**Strong**
2.	**Weak**	**Semi-strong**
3.	**Semi-strong**	**Weak**

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4. **Strong** **Weak**

1
2
3
4
Autocorrelation tests
Mostly support the weak-form EMH and indicate that price changes are random
Some studies using more securities and more complicated tests cast some doubt
Lecture Presentation for Investments, 6e
Which form of the Efficient Market Hypothesis implies that an investor can achieve positive abnormal returns on average by using technical analysis?
Strong form
Weak form
Semi-strong form
None of the given options
(Handout page 268)
The three forms of the efficient markets hypothesis are: 1) Weak form. Market prices reflect information contained in historical prices. Investors are **unable to earn abnormal returns** using historical prices to predict future price movements. **2) Semi-strong form. In addition to historical data, market prices reflect all publicly-available information. Investors with insider, or private information, are able to earn abnormal returns.** 3) Strong form. Market prices reflect all information, public or private. Investors are **unable to earn abnormal returns** using insider information or historical prices to predict future price movements.
Compared to a public offering, a private placement of the debt securities LIKELY has:
More liquidity and a lower yield
Less liquidity and lower yield
Less liquidity and a higher yield
More liquidity and a higher yield
Compared to a public offering, a private placement of debt securities likely has:
A.. more liquidity and a lower yield.
B. more liquidity and a higher yield.
e. less liquidity and a lower yield.
D. less liquidity and a higher yield

11. D Investors require a higher yield to compensate for the facr that privately placed debt is not registered for public sale and is therefore less liquid than debt registered for public sale.
http://up.m-e-c.biz/up/books/CFA%20Level%201%20Schweser%20Study%20Notes%202008%20-%20Book%205.pdf
Which of the following statements about the risks of the bond investing is MOST accurate?
A bond rated AAA has no credit risk.

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A bond with call protection has volatility risk.
A U.S. Treasury bond has no reinvestment risk.
A zero-coupon bond has less interest rate risk
13. B A Treasury bond pays semiannual coupon interest and, therefore, has reinvestment risk. A triple-A rated bond can lose its AAA rating, so it has downgrade risk, a component of credit risk. Any bond can have exchange rate risk if the security holder's returns are measured in a different currency. A bond with a call feature has volatility risk even when the call cannot be exercised immediately. The call feature still has value (to the issuer), and its value will be affected by volatility changes
http://up.m-e-c.biz/up/books/CFA%20Level%201%20Schweser%20Study%20Notes%202008%20-%20Book%205.pdf

Which of the following statements about exchange traded derivatives is LEAST accurate?
They are liquid.
They are standardized contracts.
They carry significant default risk.
They have no credit risk.
Q#2http://www.palgrave.com/finance/valdez6/students/mcqs/ch12/ch12.htm
Derivatives are LEAST likely to provide or improve:
Liquidity
Price information
Inflation reduction
Hedging
(page 165)http://up.m-e-c.biz/up/books/CFA%20Level%201%20Schweser%20Study%20Notes%202008%20-%20Book%205.pdf
A futures contract is LEAST likely:
Exchange traded
A contingent claim
Adjusted for profits and losses daily
A standardized instrument
(page 164)http://up.m-e-c.biz/up/books/CFA%20Level%201%20Schweser%20Study%20Notes%202008%20-%20Book%205.pdf
Compared to forward contracts, future contacts are LEAST likely to be:
Standardize
Large in size
Less subject to default risk
Settled daily
(page 192)http://www.facebook.com/#!/home.php?sk=group_163945183663874
Which of the following statements about covariance and the correlation coefficient is LEAST accurate?
The correlation coefficient is a measure of the linear association between two variables.

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Covariance is a measure of the how the returns of the two assets tend to move together. The correlation coefficient is computed by dividing the returns covariance of the assets by the individual return variances for the two assets.

The returns covariance between two assets is equal to the correlation between returns of the two assets, times the product of their returns standard deviation.

http://ci.columbia.edu/ci/premba_test/c0331/s7/s7_5.html

Correlation Coefficient is computed by dividing the covariance by the product of the standard deviation of the two variables

In determining the appropriate asset allocation for client's investment accounts, the manager should:

Consider only the investor's risk tolerance

Rely on forecasts of future economic conditions

Consider the investor's risk tolerance and future needs, but not market conditions

Should consider only the unique needs of the investors

http://www.equinox.co.za/article_2771.html

Factors to consider in making the asset allocation decision include the investor's return requirements (current income versus future income), the investor's risk tolerance, and the time horizon. This is done in conjunction with the investment manager's expectations about the Capital markets and about individual assets.

Which of the following statements regarding company and stock analysis is LEAST accurate?

A defensive company has earnings relatively insensitive to downturns in economy.

Cyclical stocks have betas greater than one.

A growth stock is the stock of a firm with rapidly increasing earnings.

Speculative companies have highly risky assets but have potential to produce huge earnings.

http://translate.google.com/translate?hl=en&sl=zh-CN&tl=en&u=http%3A%2F%2Fbbs.cfaspace.com%2FTopicOther.asp%3Ft%3D5%26BoardID%3D103%26id%3D95890&anno=2

The most attractive investment opportunities when the economy is slowing and entering a recession are:

Commodities and commodity-producer stocks

Stocks and commercial property

Bonds and interest-sensitive stocks

Cyclical stocks and bonds

Recovery

• Cyclicals, commodities and commodity linked equities

– Early expansion

• Stocks in general and real estate

– Late expansion

• Bonds and interest sensitive stocks

– Slowing, entering recession

• Bonds and interest sensitive stocks

– Recession

• Commodities and stocks

http://www.warsztatycfa.cba.pl/pliki_do_wykladow/Equity%20valuation.pdf

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