Pool Canvas

Add, modify, and remove questions. Select a question type from the Add Question drop-down list and click **Go** to add questions. Use Creation Settings to establish which default options, such as feedback and images, are available for question creation.

Add Calculated Formula GO | Creation Settings

Name CHAPTER 1--THE INVESTMENT SETTING
Description
Instructions

Modify

Add Question Here

Question 1 **True/False** **0 points** Modify Remove

Question The rate of exchange between certain future dollars and certain current dollars is known as the pure rate of interest.
Answer
✓ True
False

Add Question Here

Question 2 **True/False** **0 points** Modify Remove

Question An investment is the current commitment of dollars over time to derive future payments to compensate the investor for the time funds are committed, the expected rate of inflation and the uncertainty of future payments.
Answer
✓ True
False

Add Question Here

Question 3 **True/False** **0 points** Modify Remove

Question The holding period return (HPR) is equal to the holding period yield (HPY) stated as a percentage.
Answer
True
✓ False

Add Question Here

Question 4 **True/False** **0 points** Modify Remove

Question The geometric mean of a series of returns is always larger than the arithmetic mean and the difference increases with the volatility of the series.
Answer
True
✓ False

Add Question Here

Question 5 **True/False** **0 points** Modify Remove

Question The expected return is the average of all possible returns.
Answer
True
✓ False

Add Question Here

Question 6 **True/False** **0 points** Modify Remove

Question Two measures of the risk premium are the standard deviation and the variance.
Answer
True
✓ False

Add Question Here

Question 7 **True/False** **0 points** Modify Remove

Question The variance of expected returns is equal to the square root of the expected returns.
Answer
True
✓ False

Add Question Here

Question 8 **True/False** **0 points** Modify Remove

Question The coefficient of variation is the expected return divided by the standard deviation of the expected return.
Answer
True
✓ False

Add Question Here

Question 9 **True/False** **0 points** Modify Remove

Question Nominal rates are averages of all possible real rates.
Answer
True
✓ False

Add Question Here

Question 10 **True/False** **0 points** Modify Remove

Question The risk premium is a function of the volatility of operating earnings, sales volatility and inflation.
Answer
True
✓ False

Add Question Here

Question 11 **True/False** **0 points** Modify Remove

Question An individual who selects the investment that offers greater certainty when everything else is the same is known as a risk averse investor.

Answer

✓ True
False

Add Question Here

Question 12 **True/False** **0 points** Modify Remove

Question Investors are willing to forgo current consumption in order to increase future consumption for a nominal rate of interest.

Answer

True
✓ False

Add Question Here

Question 13 **True/False** **0 points** Modify Remove

Question The two most common calculations investors use to measure return performance are arithmetic means and geometric means.

Answer

✓ True
False

Add Question Here

Question 14 **True/False** **0 points** Modify Remove

Question The arithmetic mean is a superior measure of the long-term performance because it indicates the compound annual rate of return based on the ending value of the investment versus its beginning value.

Answer

True
✓ False

Add Question Here

Question 15 **Multiple Choice** **0 points** Modify Remove

Question The basic trade-off in the investment process is

Answer

✓ between the anticipated rate of return for a given investment instrument and its degree of risk.
between understanding the nature of a particular investment and having the opportunity to purchase it.
between high returns available on single instruments and the diversification of instruments into a portfolio.
between the desired level of investment and possessing the resources necessary to carry it out.
None of the above.

Add Question Here

Question 16 **Multiple Choice** **0 points** Modify Remove

Question The rate of exchange between future consumption and current consumption is

Answer

The nominal risk-free rate.
The coefficient of investment exchange.
✓ The pure rate of interest.
The consumption/investment paradigm.
The expected rate of return.

Add Question Here

Question 17 **Multiple Choice** **0 points** Modify Remove

Question The ____ the variance of returns, everything else remaining constant, the ____ the dispersion of expectations and the ____ the risk.

Answer

Larger, greater, lower
Larger, smaller, higher
✓ Larger, greater, higher
Smaller, greater, lower
Smaller, greater, greater

Add Question Here

Question 18 **Multiple Choice** **0 points** Modify Remove

Question The coefficient of variation is a measure of

Answer

Central tendency.
Absolute variability.
Absolute dispersion.
✓ Relative variability.
Relative return.

Add Question Here

Question 19 **Multiple Choice** **0 points** Modify Remove

Question The nominal risk free rate of interest is a function of

Answer

The real risk free rate and the investment's variance.
The prime rate and the rate of inflation.
The T-bill rate plus the inflation rate.
The tax free rate plus the rate of inflation.
✓ The real risk free rate and the rate of inflation.

Add Question Here

Question 20 **Multiple Choice** **0 points** Modify Remove

Question In the phrase "nominal risk free rate," nominal means

Answer

- Computed.
- Historical.
- ✓ Market.
- Average.
- Risk adverse.

Add Question Here

Question 21 **Multiple Choice** **0 points** Modify Remove

Question If a significant change is noted in the yield of a T-bill, the change is most likely attributable to

Answer

- A downturn in the economy.
- A static economy.
- ✓ A change in the expected rate of inflation.
- A change in the real rate of interest.
- A change in risk aversion.

Add Question Here

Question 22 **Multiple Choice** **0 points** Modify Remove

Question The real risk-free rate is affected by a two factors;

Answer

- The relative ease or tightness in capital markets and the expected rate of inflation.
- The expected rate of inflation and the set of investment opportunities available in the economy.
- The relative ease or tightness in capital markets and the set of investment opportunities available in the economy.
- Time preference for income consumption and the relative ease or tightness in capital markets.
- ✓ Time preference for income consumption and the set of investment opportunities available in the economy.

Add Question Here

Question 23 **Multiple Choice** **0 points** Modify Remove

Question Which of the following is **not** a component of the risk premium?

Answer

- Business risk
- Financial risk
- Liquidity risk
- Exchange rate risk
- ✓ Unsystematic market risk

Add Question Here

Question 24 **Multiple Choice** **0 points** Modify Remove

Question The ability to sell an asset quickly at a fair price is associated with

Answer

- Business risk.
- ✓ Liquidity risk.
- Exchange rate risk.
- Financial risk.
- Market risk.

Add Question Here

Question 25 **Multiple Choice** **0 points** Modify Remove

Question The variability of operating earnings is associated with

Answer

- ✓ Business risk.
- Liquidity risk.
- Exchange rate risk.
- Financial risk.
- Market risk.

Add Question Here

Question 26 **Multiple Choice** **0 points** Modify Remove

Question The uncertainty of investment returns associated with how a firm finances its investments is known as

Answer

- Business risk.
- Liquidity risk.
- Exchange rate risk.
- ✓ Financial risk.
- Market risk.

Add Question Here

Question 27 **Multiple Choice** **0 points** Modify Remove

Question What will happen to the security market line (SML) if the following events occur, other things constant: (1) inflation expectations increase, and (2) investors become more risk averse?

Answer

- Shift up and keep the same slope
- Shift up and have less slope
- ✓ Shift up and have a steeper slope
- Shift down and keep the same slope
- Shift down and have less slope

Add Question Here

Question 28 **Multiple Choice** **0 points** Modify Remove

Question A decrease in the market risk premium, all other things constant, will cause the security market line to

Answer

- Shift up
- Shift down
- Have a steeper slope
- ✓ Have a flatter slope
- Remain unchanged

Add Question Here

Question 29 **Multiple Choice** **0 points** Modify Remove

Question A decrease in the expected real growth in the economy, all other things constant, will cause the security market line to

Answer

- Shift up
- ✓ Shift down
- Have a steeper slope
- Have a flatter slope
- Remain unchanged

Add Question Here

Question 30 **Multiple Choice** **0 points** Modify Remove

Question Unsystematic risk refers to risk that is

Answer

- Undiversifiable
- ✓ Diversifiable
- Due to fundamental risk factors
- Due to market risk
- None of the above

Add Question Here

Question 31 **Multiple Choice** **0 points** Modify Remove

Question The security market line (SML) graphs the expected relationship between

Answer

- Business risk and financial risk
- Systematic risk and unsystematic risk
- ✓ Risk and return
- Systematic risk and unsystematic return
- None of the above

Add Question Here

Question 32 **Multiple Choice** **0 points** Modify Remove

Question Two factors that influence the nominal risk-free rate are;

Answer

- ✓ The relative ease or tightness in capital markets and the expected rate of inflation.
- The expected rate of inflation and the set of investment opportunities available in the economy.
- The relative ease or tightness in capital markets and the set of investment opportunities available in the economy.
- Time preference for income consumption and the relative ease or tightness in capital markets.
- Time preference for income consumption and the set of investment opportunities available in the economy.

Add Question Here

Question 33 **Multiple Choice** **0 points** Modify Remove

Question Measures of risk for an investment include

Answer

- Variance of returns and business risk
- Coefficient of variation of returns and financial risk
- Business risk and financial risk
- ✓ Variance of returns and coefficient of variation of returns
- All of the above

Add Question Here

Question 34 **Multiple Choice** **0 points** Modify Remove

Question Sources of risk for an investment include

Answer

- Variance of returns and business risk
- Coefficient of variation of returns and financial risk
- ✓ Business risk and financial risk
- Variance of returns and coefficient of variation of returns
- All of the above

Add Question Here

Question 35 **Multiple Choice** **0 points** Modify Remove

Question Modern portfolio theory assumes that most investors are

Answer

- ✓ Risk averse
- Risk neutral
- Risk seekers
- Risk tolerant
- None of the above

Add Question Here

Question 36 **Multiple Choice** **0 points** Modify Remove

Question Which of the following is not a component of the required rate of return?

Answer
- Expected rate of inflation
- Time value of money
- Risk
- ✓ Holding period return
- All of the above are components of the required rate of return

Add Question Here

Question 37 **Multiple Choice** **0 points** Modify Remove

Question All of the following are major sources of uncertainty EXCEPT

Answer
- Business risk
- Financial risk
- ✓ Default risk
- Country risk
- Liquidity risk

Add Question Here

Question 38 **Multiple Choice** **0 points** Modify Remove

Question The total risk for a security can be measured by its

Answer
- Beta with the market portfolio
- Systematic risk
- ✓ Standard deviation of returns
- Unsystematic risk
- Alpha with the market portfolio

Add Question Here

Question 39 **Multiple Choice** **0 points** Modify Remove

Question The increase in yield spreads in late 2008 and early 2009 indicated that

Answer
- Credit risk premiums decreased
- ✓ Market risk premiums increased
- Investors are more confident of the future cash flows of bonds
- Non-investment grade bonds are less risky
- Government bonds are no longer a risk free investment

Add Question Here

Question 40 **Multiple Choice** **0 points** Modify Remove

Question Which of the following is *least likely* to move a firm's position to the right on the Security Market Line (SML)?

Answer
- An increase in the firm's beta
- Adding more financial debt to the firm's balance sheet relative to equity
- Changing the business strategy to include new product lines with more volatile expected cash flows
- Investors perceive the stock as being more risky
- ✓ An increase in the risk-free required rate of return.

Add Question Here

Question 41 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.1
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Assume you bought 100 shares of NewTech common stock on January 15, 2003 at $50.00 per share and sold it on January 15, 2004 for $40.00 per share.

Refer to Exhibit 1.1. What was your holding period return?

Answer
- -10%
- -0.8
- 25%
- ✓ 0.8
- -20%

Correct Feedback HPR = Ending Value/Beginning Value = 40/50 = 0.8

Incorrect Feedback HPR = Ending Value/Beginning Value = 40/50 = 0.8

Add Question Here

Question 42 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.1
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Assume you bought 100 shares of NewTech common stock on January 15, 2003 at $50.00 per share and sold it on January 15, 2004 for $40.00 per share.

Refer to Exhibit 1.1. What was your holding period yield?

Answer
- -10%
- -0.8
- 25%
- 0.8
- ✓ -20%

Correct Feedback HPY = HPR - 1 = (40/50) - 1 = 0.8 - 1 = -0.2 = -20%

Incorrect Feedback HPY = HPR - 1 = (40/50) - 1 = 0.8 - 1 = -0.2 = -20%

Add Question Here

Question 43 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.2
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Suppose you bought a GM corporate bond on January 25, 2001 for $750, on January 25, 2004 sold it for $650.00.

Refer to Exhibit 1.2. What was your annual holding period return?

Answer
- 0.8667
- -0.1333
- 0.0333
- ✓ 0.9534
- -0.0466

Correct Feedback HPR = Ending Value/Beginning Value = $650.00/$750 = 0.8667

Annual HPR = $(HPR)^{1/n} = (0.8667)^{1/3} = 0.9534$

Incorrect Feedback HPR = Ending Value/Beginning Value = $650.00/$750 = 0.8667

Annual HPR = $(HPR)^{1/n} = (0.8667)^{1/3} = 0.9534$

Add Question Here

Question 44 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.2
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Suppose you bought a GM corporate bond on January 25, 2001 for $750, on January 25, 2004 sold it for $650.00.

Refer to Exhibit 1.2. What was your annual holding period yield?

Answer
- ✓ -0.0466
- -0.1333
- 0.0333
- 0.3534
- 0.8667

Correct Feedback HPR = Ending Value/Beginning Value = $650.00/$750 = 0.8667

Annual HPR = $(HPR)^{1/n} = (0.8667)^{1/3} = 0.9534$

Annual HPY = Annual HPR - 1 = 0.9534 - 1 = -0.0466 = -4.66%

Incorrect Feedback HPR = Ending Value/Beginning Value = $650.00/$750 = 0.8667

Annual HPR = $(HPR)^{1/n} = (0.8667)^{1/3} = 0.9534$

Annual HPY = Annual HPR - 1 = 0.9534 - 1 = -0.0466 = -4.66%

Add Question Here

Question 45 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.3
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

The common stock of XMen Inc. had the following historic prices.

Time	Price of X-Tech
3/01/1999	50.00
3/01/2000	47.00
3/01/2001	76.00
3/01/2002	80.00
3/01/2003	85.00
3/01/2004	90.00

Refer to Exhibit 1.3. What was your holding period return for the time period 3/1/1999 to 3/1/2004?

Answer
- 0.1247
- ✓ 1.8
- 0.1462
- 0.40
- 0.25

Correct Feedback HPR = Ending Value/Beginning Value = 90/50 = 1.8

Incorrect Feedback HPR = Ending Value/Beginning Value = 90/50 = 1.8

Add Question Here

Question 46 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.3
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

The common stock of XMen Inc. had the following historic prices.

Time	Price of X-Tech
3/01/1999	50.00
3/01/2000	47.00
3/01/2001	76.00
3/01/2002	80.00
3/01/2003	85.00

3/01/2004	90.00

Refer to Exhibit 1.3. What was your annual holding period yield (Annual HPY)?

Answer

0.1462
✓ 0.1247
1.8
0.40
0.25

Correct Feedback Annual HPR = $(HPR)^{1/n} = (1.8)^{1/5} = 1.1247$

Annual HPY = Annual HPR - 1 = 1.1247 - 1 = 0.1247 = 12.47%

Time	Price of X-Tech	Return	HPR
3/01/1999	50		
3/01/2000	47	-0.0600	0.9400
3/01/2001	76	0.6170	1.6170
3/01/2002	80	0.0526	1.0526
3/01/2003	85	0.0625	1.0625
3/01/2004	90	0.0588	1.0588

Incorrect Feedback Annual HPR = $(HPR)^{1/n} = (1.8)^{1/5} = 1.1247$

Annual HPY = Annual HPR - 1 = 1.1247 - 1 = 0.1247 = 12.47%

Time	Price of X-Tech	Return	HPR
3/01/1999	50		
3/01/2000	47	-0.0600	0.9400
3/01/2001	76	0.6170	1.6170
3/01/2002	80	0.0526	1.0526
3/01/2003	85	0.0625	1.0625
3/01/2004	90	0.0588	1.0588

Question 47 **Multiple Choice** **0 points**

Question Exhibit 1.3
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

The common stock of XMen Inc. had the following historic prices.

Time	Price of X-Tech
3/01/1999	50.00
3/01/2000	47.00
3/01/2001	76.00
3/01/2002	80.00
3/01/2003	85.00
3/01/2004	90.00

Refer to Exhibit 1.3. What was your arithmetic mean annual yield for the investment in XMen Industries.

Answer

✓ 0.1462
0.1247
1.8
0.40
0.25

Correct Feedback Arithmetic Mean =

$$\frac{1}{N}\sum_{t=1}^{N} HPY_t = \frac{-0.06 + 0.617 + 0.0526 + 0.0625 + 0.588}{5} = 0.1462$$

Incorrect Feedback Arithmetic Mean =

$$\frac{1}{N}\sum_{t=1}^{N} HPY_t = \frac{-0.06 + 0.617 + 0.0526 + 0.0625 + 0.588}{5} = 0.1462$$

Question 48 **Multiple Choice** **0 points**

Question Exhibit 1.3
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

The common stock of XMen Inc. had the following historic prices.

Time	Price of X-Tech
3/01/1999	50.00
3/01/2000	47.00
3/01/2001	76.00
3/01/2002	80.00
3/01/2003	85.00
3/01/2004	90.00

Refer to Exhibit 1.3. What was your geometric mean annual yield for the investment in XMen?

Answer

0.25
0.40
1.8
✓ 0.1247
0.1462

Correct Feedback

$$\text{Geometric Mean} = \prod_{t=1}^{N}\left(HPR_t\right)^{1/N} - 1$$

$$= \left[(0.94)(1.617)(1.0526)(1.0588)\right]^{1/5} - 1$$

$$= 1.1247 - 1 = 0.1247 = 12.47\%$$

Incorrect Feedback

$$\text{Geometric Mean} = \prod_{t=1}^{N}\left(HPR_t\right)^{1/N} - 1$$

$$= \left[(0.94)(1.617)(1.0526)(1.0588)\right]^{1/5} - 1$$

$$= 1.1247 - 1 = 0.1247 = 12.47\%$$

Add Question Here

Question 49 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.4
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

You have concluded that next year the following relationships are possible:

Economic Status	Probability	Rate of Return
Weak Economy	.15	-5%
Static Economy	.60	5%
Strong Economy	.25	15%

Refer to Exhibit 1.4. What is your expected rate of return [$E(R_i)$] for next year?

Answer

4.25%
✓ 6.00%
6.25%
7.75%
8.00%

Correct Feedback $E(R_i) = (0.15)(-5) + (0.60)(5) + (0.25)(15) = 6\%$

Incorrect Feedback $E(R_i) = (0.15)(-5) + (0.60)(5) + (0.25)(15) = 6\%$

Add Question Here

Question 50 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.4
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

You have concluded that next year the following relationships are possible:

Economic Status	Probability	Rate of Return
Weak Economy	.15	-5%
Static Economy	.60	5%
Strong Economy	.25	15%

Refer to Exhibit 1.4. Compute the standard deviation of the rate of return for the one year period.

Answer

0.65%
1.45%
4.0%
✓ 6.25%
6.4%

Correct Feedback $s = [(0.15)(-5 - 6)^2 + (0.60)(5 - 6)^2 + (0.25)(15 - 6)^2]^{1/2} = 6.25\%$

Incorrect Feedback $s = [(0.15)(-5 - 6)^2 + (0.60)(5 - 6)^2 + (0.25)(15 - 6)^2]^{1/2} = 6.25\%$

Add Question Here

Question 51 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.4
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

You have concluded that next year the following relationships are possible:

Economic Status	Probability	Rate of Return
Weak Economy	.15	-5%
Static Economy	.60	5%
Strong Economy	.25	15%

Refer to Exhibit 1.4. Compute the coefficient of variation for your portfolio.

Answer

0.043
0.12
1.40
0.69
✓ 1.04

Correct Feedback CV = Standard Deviation of Returns/Expected Rate of Return
= 6.25/6 = 1.04

Incorrect Feedback CV = Standard Deviation of Returns/Expected Rate of Return
= 6.25/6 = 1.04

Add Question Here

Question 52 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.5
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Assume that during the past year the consumer price index increased by 1.5 percent and the securities listed below returned the following nominal rates of return.

U.S. Government T-bills	2.75%
U.S. Long-term bonds	4.75%

Refer to Exhibit 1.5. What are the real rates of return for each of these securities?

Answer

4.29% and 6.32%
1.23% and 4.29%
3.20% and 6.32%
✓ 1.23% and 3.20%
3.75% and 5.75%

Correct Feedback Real rate on T-bills = (1.0275/1.015) - 1 = 0.0123 = 1.23%

Real rate on bonds = (1.0475/1.015) - 1 = 0.032 = 3.2%

Incorrect Feedback Real rate on T-bills = (1.0275/1.015) - 1 = 0.0123 = 1.23%

Real rate on bonds = (1.0475/1.015) - 1 = 0.032 = 3.2%

Add Question Here

Question 53 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.5
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Assume that during the past year the consumer price index increased by 1.5 percent and the securities listed below returned the following nominal rates of return.

U.S. Government T-bills	2.75%
U.S. Long-term bonds	4.75%

Refer to Exhibit 1.5. If next year the real rates all rise by 10 percent while inflation climbs from 1.5 percent to 2.5 percent, what will be the nominal rate of return on each security?

Answer

1.24% and 1.52%
1.35% and 3.52%
✓ 3.89% and 6.11%
3.52% and 3.89%
1.17% and 6.11%

Correct Feedback The computations for the new real rates are:

Real rate on T-bills = 1.23 ´ 1.10 = 1.353%
Real rate on bonds = 3.2 ´ 1.10 = 3.52%
Nominal rate on T-bills = (1.01353)(1.025) - 1 = .03886 = 3.89%
Nominal rate on corporate bonds = (1.0352)(1.025) - 1 = .06108 = 6.11%

Incorrect Feedback The computations for the new real rates are:

Real rate on T-bills = 1.23 ´ 1.10 = 1.353%
Real rate on bonds = 3.2 ´ 1.10 = 3.52%
Nominal rate on T-bills = (1.01353)(1.025) - 1 = .03886 = 3.89%
Nominal rate on corporate bonds = (1.0352)(1.025) - 1 = .06108 = 6.11%

Add Question Here

Question 54 **Multiple Choice** **0 points** Modify Remove

Question If over the past 20 years the annual returns on the S&P 500 market index averaged 12% with a standard deviation of 18%, what was the coefficient of variation?

Answer

0.6
0.6%
✓ 1.5
1.5%
0.66%

Correct Feedback Coefficient of Variation = Standard Deviation of Returns/Expected Rate of Return
= 18%/12% = 1.5

Incorrect Feedback Coefficient of Variation = Standard Deviation of Returns/Expected Rate of Return
= 18%/12% = 1.5

Add Question Here

Question 55 **Multiple Choice** **0 points** Modify Remove

Question Given investments A and B with the following risk return characteristics, which one would you prefer and why?

Investment	Expected Return	Standard Deviation of Expected Returns
A	12.2%	7%
B	8.8%	5%

Answer

Investment A because it has the highest expected return.
Investment A because it has the lowest relative risk.
Investment B because it has the lowest absolute risk.
✓ Investment B because it has the lowest coefficient of variation.
Investment A because it has the highest coefficient of variation.

Correct Feedback Coefficient of Variation = Standard Deviation of Returns/Expected Rate of Return

CV_A = 7%/12.2% = 0.573

CV_B = 5%/8.8% = 0.568

Investment B has the lowest coefficient of variation and would be preferred.

Incorrect Feedback Coefficient of Variation = Standard Deviation of Returns/Expected Rate of Return

CV_A = 7%/12.2% = 0.573

CV_B = 5%/8.8% = 0.568

Investment B has the lowest coefficient of variation and would be preferred.

Add Question Here

Question 56 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.6
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

You are provided with the following information:

Nominal return on risk-free asset = 4.5%
Expected return for asset i = 12.75%
Expected return on the market portfolio = 9.25%

Refer to Exhibit 1.6. Calculate the risk premium for asset i.

Answer

4.5%
✓ 8.25%
4.75%
3.5%
None of the above

Correct Feedback Risk premium for asset i = 12.75 - 4.5 = 8.25%

Incorrect Feedback Risk premium for asset i = 12.75 - 4.5 = 8.25%

Add Question Here

Question 57 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.6
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

You are provided with the following information:

Nominal return on risk-free asset = 4.5%
Expected return for asset i = 12.75%
Expected return on the market portfolio = 9.25%

Refer to Exhibit 1.6. Calculate the risk premium for the market portfolio.

Answer

4.5%
8.25%
✓ 4.75%
3.5%
None of the above

Correct Feedback Risk premium market portfolio = 9.25 - 4.5 = 4.75%

Incorrect Feedback Risk premium market portfolio = 9.25 - 4.5 = 4.75%

Add Question Here

Question 58 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.7
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Consider the following information

Nominal annual return on U.S. government T-bills for year 2009 = 3.5%
Nominal annual return on U.S. government long-term bonds for year 2009 = 4.75%
Nominal annual return on U.S. large-cap stocks for year 2009= 8.75%
Consumer price index January 1, 2009 = 165

Consumer price index December 31, 2009 = 169

Refer to Exhibit 1.7. Compute the rate of inflation for the year 2009.

Answer
- ✓ 2.42%
- 4.0%
- 1.69%
- 1.24%
- None of the above

Correct Feedback Rate of inflation = (169/165) - 1 = .0242 = 2.42%

Incorrect Feedback Rate of inflation = (169/165) - 1 = .0242 = 2.42%

Add Question Here

Question 59 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.7
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Consider the following information

Nominal annual return on U.S. government T-bills for year 2009 = 3.5%
Nominal annual return on U.S. government long-term bonds for year 2009 = 4.75%
Nominal annual return on U.S. large-cap stocks for year 2009= 8.75%
Consumer price index January 1, 2009 = 165
Consumer price index December 31, 2009 = 169

Refer to Exhibit 1.7. Calculate the annual real rate of return for U.S. T-bills.

Answer
- 2.26%
- 1.81%
- -0.5%
- ✓ 1.05%
- None of the above

Correct Feedback Real return on U.S. T-bills = (1.035/1.0242) - 1 = .0105 = 1.05%

Incorrect Feedback Real return on U.S. T-bills = (1.035/1.0242) - 1 = .0105 = 1.05%

Add Question Here

Question 60 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.7
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Consider the following information

Nominal annual return on U.S. government T-bills for year 2009 = 3.5%
Nominal annual return on U.S. government long-term bonds for year 2009 = 4.75%
Nominal annual return on U.S. large-cap stocks for year 2009= 8.75%
Consumer price index January 1, 2009 = 165
Consumer price index December 31, 2009 = 169

Refer to Exhibit 1.7. Calculate the annual real rate of return for U.S. long-term bonds.

Answer
- 3.06%
- ✓ 2.27%
- 2.51%
- 3.5%
- None of the above

Correct Feedback Real return on U.S. bonds = (1.0475/1.0242) - 1 = .0227 = 2.27%

Incorrect Feedback Real return on U.S. bonds = (1.0475/1.0242) - 1 = .0227 = 2.27%

Add Question Here

Question 61 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.7
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Consider the following information

Nominal annual return on U.S. government T-bills for year 2009 = 3.5%
Nominal annual return on U.S. government long-term bonds for year 2009 = 4.75%
Nominal annual return on U.S. large-cap stocks for year 2009= 8.75%
Consumer price index January 1, 2009 = 165
Consumer price index December 31, 2009 = 169

Refer to Exhibit 1.7. Calculate the annual real rate of return for U.S. large-cap stocks.

Answer
- 7.06%
- ✓ 6.18%
- 4.75%
- 3.75%
- None of the above

Correct Feedback Real return on U.S. stocks = (1.0875/1.0242) - 1 = .0618 = 6.18%

Incorrect Feedback Real return on U.S. stocks = (1.0875/1.0242) - 1 = .0618 = 6.18%

Add Question Here

Question 62 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.8
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Assume that you hold a two stock portfolio. You are provided with the following information on your holdings:

Stock	Shares	Price(t)	Price(t + 1)
1	15	10	12
2	25	15	16

Refer to Exhibit 1.8. Calculate the HPY for stock 1.

Answer

10%
✓ 20%
15%
12%
7%

Correct Feedback

Stock	Shares	Price(t)	MV (t)	Price (t+1)	MV (t+1)	HPR	HPY	Weight	Weighted HPY
1	15	10	150	12	180	1.2	0.2	0.29	0.058
2	25	15	375	16	400	1.07	0.07	0.71	0.048
			525		580				0.106

HPY for stock 1 = (180/150) - 1 = .2 = 20%

Incorrect Feedback

Stock	Shares	Price(t)	MV (t)	Price (t+1)	MV (t+1)	HPR	HPY	Weight	Weighted HPY
1	15	10	150	12	180	1.2	0.2	0.29	0.058
2	25	15	375	16	400	1.07	0.07	0.71	0.048
			525		580				0.106

HPY for stock 1 = (180/150) - 1 = .2 = 20%

Add Question Here

Question 63 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.8
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Assume that you hold a two stock portfolio. You are provided with the following information on your holdings:

Stock	Shares	Price(t)	Price(t + 1)
1	15	10	12
2	25	15	16

Refer to Exhibit 1.8. Calculate the HPY for stock 2.

Answer

5%
6%
✓ 7%
8%
10%

Correct Feedback

Stock	Shares	Price(t)	MV (t)	Price (t+1)	MV (t+1)	HPR	HPY	Weight	Weighted HPY
1	15	10	150	12	180	1.2	0.2	0.29	0.058
2	25	15	375	16	400	1.07	0.07	0.71	0.048
			525		580				0.106

HPY for stock 2 = (400/375) - 1 = .07 = 7%

Incorrect Feedback

Stock	Shares	Price(t)	MV (t)	Price (t+1)	MV (t+1)	HPR	HPY	Weight	Weighted HPY
1	15	10	150	12	180	1.2	0.2	0.29	0.058
2	25	15	375	16	400	1.07	0.07	0.71	0.048
			525		580				0.106

HPY for stock 2 = (400/375) - 1 = .07 = 7%

Add Question Here

Question 64 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.8
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Assume that you hold a two stock portfolio. You are provided with the following information on your holdings:

Stock	Shares	Price(t)	Price(t + 1)
1	15	10	12
2	25	15	16

Refer to Exhibit 1.8. Calculate the market weights for stock 1 and 2 based on period t values.

Answer

39% for stock 1 and 61% for stock 2
50% for stock 1 and 50% for stock 2
71% for stock 1 and 29% for stock 2
✓ 29% for stock 1 and 71% for stock 2
None of the above

Correct Feedback

Stock	Shares	Price(t)	MV (t)	Price (t+1)	MV (t+1)	HPR	HPY	Weight	Weighted HPY
1	15	10	150	12	180	1.2	0.2	0.29	0.058
2	25	15	375	16	400	1.07	0.07	0.71	0.048
			525		580				0.106

Market weight for stock 1 = 150/525 = .29 = 29%

Market weight for stock 2 = 375/525 = .71 = 71%

Incorrect Feedback

Stock	Shares	Price(t)	MV (t)	Price (t+1)	MV (t+1)	HPR	HPY	Weight	Weighted HPY
1	15	10	150	12	180	1.2	0.2	0.29	0.058
2	25	15	375	16	400	1.07	0.07	0.71	0.048
			525		580				0.106

Market weight for stock 1 = 150/525 = .29 = 29%

Market weight for stock 2 = 375/525 = .71 = 71%

Add Question Here

Question 65 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.8
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

Assume that you hold a two stock portfolio. You are provided with the following information on your holdings:

Stock	Shares	Price(t)	Price(t + 1)
1	15	10	12
2	25	15	16

Refer to Exhibit 1.8. Calculate the HPY for the portfolio.

Answer

✓ 10.6%
6.95%
13.5%
10%
15.7%

Correct Feedback

Stock	Shares	Price(t)	MV (t)	Price (t+1)	MV (t+1)	HPR	HPY	Weight	Weighted HPY
1	15	10	150	12	180	1.2	0.2	0.29	0.058
2	25	15	375	16	400	1.07	0.07	0.71	0.048
			525		580				0.106

Portfolio HPY = .29(.20) + .71(.07) = .106 = 10.6%

Incorrect Feedback

Stock	Shares	Price(t)	MV (t)	Price (t+1)	MV (t+1)	HPR	HPY	Weight	Weighted HPY
1	15	10	150	12	180	1.2	0.2	0.29	0.058
2	25	15	375	16	400	1.07	0.07	0.71	0.048
			525		580				0.106

Portfolio HPY = .29(.20) + .71(.07) = .106 = 10.6%

Add Question Here

Question 66 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.9
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

You purchased 100 shares of GE common stock on January 1, for $29 a share. A year later you received $1.25 in dividends per share and you sold it for $28 a share.

Refer to Exhibit 1.9. Calculate your holding period return (HPR) for this investment in GE stock.

Answer

0.9655
✓ 1.0086
1.0357
1.0804
1.0973

Correct Feedback HPR = (28 + 1.25)/29 = 1.0086

Incorrect Feedback HPR = (28 + 1.25)/29 = 1.0086

Add Question Here

Question 67 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.9
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

You purchased 100 shares of GE common stock on January 1, for $29 a share. A year later you received $1.25 in dividends per share and you sold it for $28 a share.

Refer to Exhibit 1.9. Calculate your holding period yield (HPY) for this investment in GE stock.

Answer

-0.0345
-0.0090
✓ 0.0086
0.0643
0.0804

Correct Feedback HPY = (28 + 1.25)/29 - 1 = 1.0086 - 1 = 0.0086

Incorrect Feedback HPY = (28 + 1.25)/29 - 1 = 1.0086 - 1 = 0.0086

Add Question Here

Question 68 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.10
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

The annual rates of return of Stock Z for the last four years are 0.10, 0.15, -0.05, and 0.20, respectively.

Refer to Exhibit 1.10. Compute the arithmetic mean annual rate of return for Stock Z.

Answer

0.03
0.04
0.06
✓ 0.10
0.40

Correct Feedback AM = (0.10 + 0.15 - 0.05 + 0.20)/4 = 0.10

Incorrect Feedback AM = (0.10 + 0.15 - 0.05 + 0.20)/4 = 0.10

Add Question Here

Question 69 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.10
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

The annual rates of return of Stock Z for the last four years are 0.10, 0.15, -0.05, and 0.20, respectively.

Refer to Exhibit 1.10. Compute the standard deviation of the annual rate of return for Stock Z.

Answer

0.0070
0.0088
0.0837
✓ 0.0935
0.1145

Correct Feedback

$$\text{Std Dev} = \sqrt{\frac{(0.10-0.10)^2+(0.15-0.10)^2+(-0.05-0.10)^2+(0.20-0.10)^2}{4}}$$

$$= \sqrt{\frac{0+.0025+.0225+.01}{4}} = \sqrt{\frac{.035}{4}} = .0935$$

Incorrect Feedback

$$\text{Std Dev} = \sqrt{\frac{(0.10-0.10)^2+(0.15-0.10)^2+(-0.05-0.10)^2+(0.20-0.10)^2}{4}}$$

$$= \sqrt{\frac{0+.0025+.0225+.01}{4}} = \sqrt{\frac{.035}{4}} = .0935$$

Add Question Here

Question 70 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.10
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

The annual rates of return of Stock Z for the last four years are 0.10, 0.15, -0.05, and 0.20, respectively.

Refer to Exhibit 1.10. Compute the coefficient of variation for Stock Z.

Answer

0.837
✓ 0.935
1.070
1.145
1.281

Correct Feedback The coefficient of variation is equal to the standard deviation divided by the expected return. .0935/10 = 0.935

Incorrect Feedback The coefficient of variation is equal to the standard deviation divided by the expected return. .0935/10 = 0.935

Add Question Here

Question 71 **Multiple Choice** **0 points** Modify Remove

Question Exhibit 1.10
USE THE INFORMATION BELOW FOR THE FOLLOWING PROBLEM(S)

The annual rates of return of Stock Z for the last four years are 0.10, 0.15, -0.05, and 0.20, respectively.

Refer to Exhibit 1.10. Compute the geometric mean rate of return for Stock Z.

Answer

0.051
0.074
✓ 0.096
0.150
1.090

Correct Feedback $[(1.1)(1.15)(0.95)(1.2)]^{1/4} = 1.0958 - 1 = 0.0958$

Incorrect Feedback $[(1.1)(1.15)(0.95)(1.2)]^{1/4} = 1.0958 - 1 = 0.0958$

Add Question Here

Question 72 **Multiple Choice** **0 points** Modify Remove

Question Economists project the long-run real growth rate for the next five years to be 2.5 percent and the average annual rate of inflation over this five year period to be 3 percent. What is the expected nominal rate of return over the next five years?

Answer

0.500 percent
1.056 percent
2.750 percent
5.500 percent
✓ 5.575 percent

Correct Feedback 1 - (1.025)(1.03) = 1 - 1.05575 = 5.575%

Incorrect Feedback 1 - (1.025)(1.03) = 1 - 1.05575 = 5.575%

Add Question Here

OK