1. You are going to invest all of your funds in one of three projects with the following distribution of possible returns:

|  |
| --- |
| PROJECT 1 |
| Probability | Return | Standard Deviation | Beta |
| 50% Chance | 22% | 12% | 1.1 |
| 50% Chance | -4% |  |  |
|  |  |  |  |
| PROJECT 2 |
| Probability | Return | Standard Deviation | Beta |
| 30% Chance | 36% | 19.5% | 1.0 |
| 40% Chance | 10.5% |  |  |
| 30% Chance | -20% |  |  |
|  |  |  |  |
| PROJECT 3 |
| Probability | Return | Standard Deviation | Beta |
| 10% Chance | 28% | 12% | 1.2 |
| 70% Chance | 18% |  |  |
| 20% Chance | -8% |  |  |

If you are a risk averse investor, which one should you choose?

* 1. Project 1
	2. Project 2
	3. Project 3
	4. Either Project 1 or Project 2 because they have the same expected return.

*Answer: c; Difficulty: 2; Keywords: Standard Deviation, Risk-Return Trade Off, Expected Return, Non-diversified Portfolio*

1. You are going to add one of the following three projects to your already well-diversified portfolio.

|  |
| --- |
| PROJECT 1 |
| Probability | Return | Standard Deviation | Beta |
| 50% Chance | 22% | 12% | 1.1 |
| 50% Chance | -4% |  |  |
|  |  |  |  |
| PROJECT 2 |
| Probability | Return | Standard Deviation | Beta |
| 30% Chance | 36% | 19.5% | 1.0 |
| 40% Chance | 10.5% |  |  |
| 30% Chance | -20% |  |  |
|  |  |  |  |
| PROJECT 3 |
| Probability | Return | Standard Deviation | Beta |
| 10% Chance | 28% | 12% | 1.2 |
| 70% Chance | 18% |  |  |
| 20% Chance | -8% |  |  |

Assume the risk-free rate of return is 2% and the market risk premium is 8%. If you are a risk averse investor, which project should you choose?

* 1. Project 1
	2. Project 2
	3. Project 3
	4. Either Project 2 or Project 3 because the higher expected return on project 3 offsets its higher risk.

*Answer: b; Difficulty: 3; Keywords: Beta, Risk-Return Trade Off, Expected Return, Security Market Line, Required Return*

1. The appropriate measure for risk according to the capital asset pricing model is:
	1. the standard deviation of a firm's cash flows
	2. alpha
	3. the standard deviation of a firm's stock returns
	4. beta

 *Answer: d; Difficulty: 1; Keywords: Beta, CAPM, Risk*

1. You are considering a sales job that pays you on a commission basis or a salaried position that pays you $50,000 per year. Historical data suggests the following probability distribution for your commission income. Which job has the higher expected income?

|  |  |
| --- | --- |
| Commission | Probability of Occurrence |
| $15,000  | 0.10 |
| $35,000  | 0.25 |
| $48,000  | 0.30 |
| $67,000  | 0.20 |
| $80,000  | 0.15 |

* 1. the salary of $50,000 is greater than the expected commission of $49,000
	2. the salary of $50,000 is greater than the expected commission of $48,000
	3. the salary of $50,000 is less than the expected commission of $50,050
	4. the salary of $50,000 is less than the expected commission of $53,700

 *Answer: c; Difficulty: 2; Keywords: Expected Value*

1. Which of the following investments is clearly preferred to the others for an investor who is not holding a well-diversified portfolio?

 \_

Investment k σ

 A 18% 20%

 B 20% 20%

 C 20% 22%

* 1. Investment A
	2. Investment B
	3. Investment C
	4. cannot be determined without information regarding the risk-free rate of return

*Answer b; Difficulty: 2; Keywords: Expected Return, Standard Deviation, Risk-Return Trade Off*

1. Which of the following investments is clearly preferred to the others for a risk-averse investor:

 \_

Investment k σ

 A 14% 12%

 B 22% 20%

 C 18% 16%

* 1. Investment A
	2. Investment B
	3. Investment C
	4. cannot be determined without additional information

 *Answer: d; Difficulty: 2; Keywords: Expected Return, Standard Deviation, Risk-Return Trade Off*

1. You are considering investing in Ford Motor Company. Which of the following are examples of diversifiable risk?
2. Risk resulting from possibility of a stock market crash.
3. Risk resulting from uncertainty regarding a possible strike against Ford.
4. Risk resulting from an expensive recall of a Ford product.
5. Risk resulting from interest rates decreasing.
	1. I only
	2. I and IV
	3. I, II, III, IV
	4. II, III

*Answer: d; Difficulty: 1; Keywords: Diversifiable Risk*

1. You are considering buying some stock in Continental Grain. Which of the following are examples of non-diversifiable risks?
2. Risk resulting from a general decline in the stock market.
3. Risk resulting from a possible increase in income taxes.
4. Risk resulting from an explosion in a grain elevator owned by Continental.
5. Risk resulting from a pending lawsuit against Continental.
	1. I and II
	2. III and IV
	3. I only
	4. II, III, and IV

*Answer: a; Difficulty: 2; Keywords: Non-diversifiable risk, Systematic Risk*

1. SeeBreeze Incorporated has a beta of 1.0. If the expected return on the market is 15%, what is the expected return on SeeBreeze Incorporated's stock?
	1. 15%
	2. 14%
	3. 18%
	4. cannot be determined without the risk free rate

*Answer: a; Difficulty: 2; Keywords: Beta, Security Market Line*

1. Gizmo Corp. common stock has a required return of 14.4% and a beta of 1.5. If the expected risk free return is 5%, what is the expected return for the market based on the CAPM?
	1. 19.40%
	2. 21.90%
	3. 12.35%
	4. 11.27%

 *Answer: d; Difficulty: 2; Keywords: Beta, Security Market Line, Expected Return for the Market Portfolio*

1. Lodi, Inc. common stock has a beta of 1.7. If the expected risk free return is 5% and the expected market risk premium is 10%, what is the expected return on Lodi's stock?
	1. 25.5%
	2. 22.0%
	3. 17.0%
	4. 13.5%

 *Answer: b; Difficulty: 2; Keywords: Beta, Security Market Line, Market Risk Premium, Expected Return*

1. You determine that XYZ common stock will return 15%. XYZ has a Beta of 1.5. The risk-free rate is 5%, and the market expected return is 15%. Which of the following is most likely to happen?
	1. you and other investors will buy up XYZ stock and its price will rise
	2. you and other investors will sell XYZ stock and its return will fall
	3. you and other investors will buy up XYZ stock and its return will rise
	4. you and other investors will sell XYZ stock and its price will fall

*Answer: d; Difficulty: 2; Keywords: Security Market Line, Required Return, Expected Return*

1. Of the following, which differs in meaning from the other three?
	1. systematic risk
	2. market risk
	3. undiversifiable risk
	4. asset-unique risk

*Answer: d; Difficulty: 2; Keywords: Systematic Risk, Market Risk, Undiversifiable Risk*

1. Most stocks have betas between \_\_\_\_\_\_\_\_.
	1. -1.00 and 1.00
	2. 0.00 and 1.00
	3. 0.60 and 1.60
	4. 1.00 and 2.00

*Answer: c; Difficulty: 1; Keywords: Beta*

1. Hole Con Shooz, Inc. has normally distributed returns with an expected return of 15% and a standard deviation of 5%, while Ed Allenmunds Shooz, Inc. has normally distributed returns with an expected return of 15% and a standard deviation of 15%. Which of the following statements is true?
	1. Ed Allenmunds’ investors are not being adequately compensated for relevant risk.
	2. Hole Con is likely to experience returns larger than those of Ed Allenmunds.
	3. Ed Allenmunds is more likely to have negative returns than Hole Con.
	4. Rational investors will prefer Ed Allenmunds, Inc. over Hole Con Shooz, Inc.

*Answer: c; Difficulty: 2; Keywords: Expected Return, Standard Deviation*

1. A well-diversified portfolio includes investments in 50 securities. The portfolio's systematic risk is likely to be about \_\_\_\_\_\_\_\_.
	1. 50% of the total risk
	2. 40% of the total risk
	3. 25% of the total risk
	4. zero because risk is eliminated with a portfolio of 50 securities or more

*Answer: b; Difficulty: 2; Keywords: Systematic Risk, Well-diversified Portfolio*

1. Beta is a statistical measure of \_\_\_\_\_\_\_\_.
	1. unsystematic risk
	2. total risk
	3. the standard deviation
	4. the relationship between an investment's returns and the market return

*Answer: d; Difficulty: 1; Keywords: Beta*

1. You are considering investing in a project with the following possible outcomes:

|  |  |  |
| --- | --- | --- |
| States | Probability of Occurrence | Investment Returns |
| State 1: Economic boom | 18% | 20% |
| State 2: Economic growth | 42% | 16% |
| State 3: Economic decline | 30% | 3% |
| State 4: Depression | 10% | -25% |

Calculate the expected rate of return and standard deviation of returns for this investment, respectively.

* 1. 8.72%, 12.99%
	2. 7.35%, 12.99%
	3. 3.50%, 1.69%
	4. 2.18%, 1.69%

*Answer: a; Difficulty: 2; Keywords: Expected Return, Standard Deviation*

1. A stock's beta is a measure of its \_\_\_\_\_\_\_\_.
	1. unsystematic risk
	2. systematic risk
	3. company-unique risk
	4. diversifiable risk

*Answer: b; Difficulty: 1; Keywords: Beta, Systematic Risk*

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

|  |  |  |
| --- | --- | --- |
| Investment | Value | Beta |
| Stock A | $2,000 | 1.5 |
| Stock B | $5,000 | 1.2 |
| Stock C | $3,000 | 0.8 |

What is the beta of the portfolio?

* 1. 1.17
	2. 1.14
	3. 1.32
	4. 1.20

*Answer: b; Difficulty: 2; Keywords: Beta, Portfolio*

1. Which of the following statements is/are true?
	1. Most of the unsystematic risk is removed by the time a portfolio contains 30 stocks.
	2. Two points on the Characteristic Line are the T-bill and the market portfolio.
	3. The greater the total risk of an asset, the greater the expected return.
	4. All securities have a beta between 0 and 1.

*Answer: a; Difficulty: 2; Keywords: Systematic Risk, Diversification*

1. You hold a portfolio made up of the following stocks:

|  |  |  |
| --- | --- | --- |
| Investment | Value | Beta |
| Stock A | $4,000 | 2.0 |
| Stock B | $9,000 | 1.5 |
| Stock C | $7,000 | 0.4 |

If the market’s expected return is 14%, and the risk free rate of return is 5%, what is the expected return of the portfolio?

* 1. 17.010%
	2. 16.700%
	3. 15.935%
	4. 14.698%

*Answer: c; Difficulty: 2; Keywords: Security Market Line, Beta, Expected Return, Portfolio*

1. If we are able to fully diversify, what is the appropriate measure of risk to use?
	1. Expected Return
	2. Standard Deviation
	3. Beta
	4. Risk-free Rate of Return

*Answer: c; Difficulty: 1; Keywords: Diversification, Beta*

1. Changes in the general economy, like changes in interest rates or tax laws represent what type of risk?
	1. Company-unique risk
	2. Market risk
	3. Unsystematic risk
	4. Diversifiable risk

*Answer: b; Difficulty: 1; Keywords: Market Risk*

1. Collectibles Corp. has a beta of 3.25 and a standard deviation of returns of 27%. The return on the market portfolio is 13% and the risk free rate is 5%. What is the risk premium on the market?
	1. 16.25%
	2. 8.00%
	3. 9.00%
	4. 10.75%

*Answer: b; Difficulty: 1; Keywords: Security Market Line, Market Risk Premium*

1. Collectibles Corp. has a beta of 3.25 and a standard deviation of returns of 27%. The return on the market portfolio is 13% and the risk free rate is 5%. What is the risk premium on the market? According to CAPM, what is the required rate of return on Collectible's stock?
	1. 42.25%
	2. 40.00%
	3. 31.00%
	4. 29.25%

*Answer: c; Difficulty: 2; Keywords: Security Market Line, Beta, Required Rate of Return*

1. You hold a portfolio with the following securities:

|  |  |  |  |
| --- | --- | --- | --- |
| Security | Value | Beta | Expected Return |
| Able Corporation | 20% | 3.20 | 36.0% |
| Baker Corporation | 40% | 1.60 | 20.0% |
| Charlie Corporation | 40% | 0.20 | 6.0% |

What is the expected return for the portfolio?

* 1. 17.60%
	2. 20.67%
	3. 23.54%
	4. 28.59%

*Answer: a; Difficulty: 2; Keywords: Expected Return, Portfolio*

1. You hold a portfolio with the following securities:

|  |  |  |  |
| --- | --- | --- | --- |
| Security | Value | Beta | Expected Return |
| Able Corporation | 20% | 3.20 | 36.0% |
| Baker Corporation | 40% | 1.60 | 20.0% |
| Charlie Corporation | 40% | 0.20 | 6.0% |

What is the expected return for the market, according to the CAPM?

* 1. 14.0%
	2. 13.8%
	3. 12.0%
	4. 10.0%

*Answer: a; Difficulty: 3; Keywords: Expected Return on the Market, CAPM, Security Market Line, Beta*

1. The prices for the Electric Circuit Corporation for the first quarter of 2007 are given below. The price of the stock on January 1, 2007 was $120. Find the holding period return for an investor who purchased the stock on January 1, 2007 and sold it the last day of February 2007.

|  |  |
| --- | --- |
| Month End | Value |
| January | $127.00 |
| February | 115.50 |
| March | 140.94 |

* 1. -3.90%
	2. -3.75%
	3. 2.08%
	4. 3.52%

*Answer: b; Difficulty: 2; Keywords: Holding Period Return*

1. The beta of ABC Co. stock is the slope of \_\_\_\_\_\_\_\_.
	1. the security market line
	2. the characteristic line for a plot of returns on the S&P 500 versus returns on short-term Treasury bills
	3. the arbitrage pricing line
	4. the characteristic line for a plot of ABC Co. returns against the returns of the market portfolio for the same period

*Answer: d; Difficulty: 2; Keywords: Beta, Characteristic Line*

1. The rate on T-bills is currently 5%. P. Tree Company stock has a beta of 1.69 and a required rate of return of 15.4%. According to CAPM, determine the return on the market portfolio.
	1. 11.15%
	2. 6.15%
	3. 17.07%
	4. 14.11%

*Answer: a; Difficulty: 3; Keywords: T-bill, Beta, Security Market Line, CAPM*

1. The return on the market portfolio is currently 12%. Mobile Phone Corporation stockholders require a rate of return of 30% and the stock has a beta of 3.2. According to CAPM, determine the risk-free rate.
	1. 9.80%
	2. 6.50%
	3. 4.64%
	4. 3.82%

 *Answer: d; Difficulty: 3; Keywords: CAPM, Security Market Line, Risk-free Rate of Return*

1. You must add one of two investments to an already well- diversified portfolio.

|  |  |
| --- | --- |
| Security A | Security B |
| Expected Return = 12% | Expected Return = 12% |
| Standard Deviation of Returns - 20.9% | Standard Deviation of Returns = 10.1% |
| Beta = .8 | Beta = 2 |

If you are a risk-averse investor, which one is the better choice?

* 1. Security A
	2. Security B
	3. either security would be acceptable
	4. cannot be determined with information given

*Answer: a; Difficulty: 2; Keywords: Well-diversified Portfolio, Risk-Return Trade Off, Beta*

1. The minimum rate of return necessary to attract an investor to purchase or hold a security is referred to as the \_\_\_\_\_\_\_\_.
	1. stock's beta
	2. investor's risk premium
	3. investor's required rate of return
	4. risk-free rate

*Answer: c; Difficulty: 1; Keywords: Required Rate of Return*

1. The relevant variable a financial manager uses to measure returns is \_\_\_\_\_\_\_\_.
	1. net income determined using generally accepted accounting principles
	2. earnings per share minus dividends per share
	3. cash flows
	4. dividends

*Answer: c; Difficulty: 1; Keywords: Returns*

1. Of the following different types of securities, which is typically considered most risky?
	1. long term corporate bonds
	2. long term government bonds
	3. common stocks of large companies
	4. U.S. Treasury bills

*Answer: c; Difficulty: 1; Keywords: Risk, Stocks, Bonds, Treasury Bills*

1. Beginning with an investment in one company's securities, as we add securities of other companies to our portfolio, which type of risk declines?
	1. systematic risk
	2. market risk
	3. non-diversifiable risk
	4. unsystematic risk

*Answer: d; Difficulty: 1; Keywords: Unsystematic Risk, Diversification*

1. Assume that an investment is forecasted to produce the following returns: a 20% probability of a $1,200 return; a 50% probability of a $5,600 return; and a 30% probability of a $9,500 return. What is the expected amount of return this investment will produce?
	1. $4,533
	2. $6,125
	3. $5,890
	4. $7,136

*Answer: c; Difficulty: 2; Keywords: Expected Return*

1. Assume that an investment is forecasted to produce the following returns: a 20% probability of a 12% return; a 50% probability of a 16% return; and a 30% probability of a 19% return. What is the expected percentage return this investment will produce?
	1. 33.3%
	2. 16.1%
	3. 9.3%
	4. 15.7%

*Answer: b; Difficulty: 2; Keywords: Expected Return*

1. Assume that you expect to hold a $20,000 investment for one year. It is forecasted to have a yearend value of $22,000 with a 25% probability; a yearend value of $25,000 with a 50% probability; and a yearend value of $30,000 with a 25% probability. What is the expected holding period return for this investment?
	1. 50%
	2. 27.5%
	3. 12.5%
	4. 2.5%

*Answer: b; Difficulty: 3; Keywords: Holding Period Return, Expected Return*

1. Assume that you expect to hold a $20,000 investment for one year. It is forecasted to have a yearend value of $22,000 with a 25% probability; a yearend value of $25,000 with a 50% probability; and a yearend value of $30,000 with a 25% probability. What is the standard deviation of the holding period return for this investment?
	1. 2.06%
	2. 14.36%
	3. 27.5%
	4. 32.5%

*Answer: b; Difficulty: 3; Keywords: Holding Period Return, Standard Deviation*

1. Assume that an investment is forecasted to produce the following returns: a 20% probability of a 12% return; a 50% probability of a 16% return; and a 30% probability of a 19% return. What is the standard deviation of return for this investment?
	1. 5.89%
	2. 16.1%
	3. 2.43%
	4. 15.7%

*Answer: c; Difficulty: 2; Keywords: Standard Deviation*

1. You must add one of two investments to an already well- diversified portfolio.

|  |  |
| --- | --- |
| Security A | Security B |
| Expected Return = 13% | Expected Return = 15% |
| Standard Deviation of Returns - 10.0% | Standard Deviation of Returns = 19.9% |
| Beta = 1.5 | Beta = 1.5 |

If you are a risk-averse investor, which one is the better choice?

* 1. Security A
	2. Security B
	3. either security would be acceptable
	4. cannot be determined with information given

*Answer: b; Difficulty: 2; Keywords: Well-diversified Portfolio, Risk-Return Trade Off, Beta*

1. Portfolio risk is typically measured by \_\_\_\_\_\_\_\_ while the risk of a single investment is measured by \_\_\_\_\_\_\_\_?
	1. standard deviation; beta
	2. security market line; standard deviation
	3. beta; standard deviation
	4. beta; slope of the characteristic line

*Answer: c; Difficulty: 2; Keywords: Portfolio Risk, Beta, Standard Deviation*

1. How can investors reduce the risk associated with an investment portfolio without having to accept a lower expected return?
	1. wait until the stock market rises
	2. increase the amount of money invested in the portfolio
	3. purchase a variety of securities; i.e., diversify
	4. purchase stocks that have exceptionally high standard deviations

*Answer: c; Difficulty: 1; Keywords: Diversification, Risk*

1. Which of the following types of risk is diversifiable?
	1. unsystematic, or company-unique risk
	2. betagenic, or ecocentric risk
	3. systematic risk
	4. market risk

*Answer: a; Difficulty: 1; Keywords: Diversifiable Risk, Unsystematic Risk*

1. You purchased 1,000 shares of Williams Inc. common stock one year ago for $60 per share. You received a dividend of $3 per share today and decide to take your profits by selling at $61.50 per share. What is your holding period return?
	1. 7.69%
	2. 7.50%
	3. 7.32%
	4. 4.88%

*Answer: b; Difficulty: 2; Keywords: Holding Period Return, Dividends*

1. Which of the following measures the average relationship between a stock's returns and the market's returns?
	1. coefficient of validation
	2. standard deviation
	3. geometric regression
	4. beta coefficient

*Answer: d; Difficulty: 1; Keywords: Beta*

1. Assume that you have $165,000 invested in a stock that is returning 11.50%, $85,000 invested in a stock that is returning 22.75%, and $235,000 invested in a stock that is returning 10.25%. What is the expected return of your portfolio?
	1. 15.6%
	2. 12.9%
	3. 18.3%
	4. 14.8%

*Answer: b; Difficulty: 2; Keywords: Expected Return, Portfolio*

1. Assume that you have $100,000 invested in a stock that is returning 12%, $200,000 invested in a stock that is returning 12%, and $300,000 invested in a stock that is returning 15%. What is the expected return of your portfolio?
	1. 13.5%
	2. 12.9%
	3. 18.3%
	4. 14.8%

*Answer: a; Difficulty: 2; Keywords: Expected Return, Portfolio*

1. Assume that you have $165,000 invested in a stock whose beta is 1.25, $85,000 invested in a stock whose beta is 2.35, and $235,000 invested in a stock whose beta is 1.11. What is the beta of your portfolio?
	1. 1.37
	2. 2.01
	3. 1.85
	4. 1.57

*Answer: a; Difficulty: 2; Keywords: Beta, Portfolio*

1. Assume that you have $100,000 invested in a stock whose beta is .85, $200,000 invested in a stock whose beta is 1.05, and $300,000 invested in a stock whose beta is 1.25. What is the beta of your portfolio?
	1. 0.97
	2. 1.02
	3. 1.12
	4. 1.21

*Answer: c; Difficulty: 2; Keywords: Beta, Portfolio*

1. Which of the following statements is most correct regarding beta?
	1. beta must be calculated using at least 5 years of monthly returns data to be accurate
	2. beta can only be measured properly using daily returns
	3. beta for a particular company remains constant over time
	4. even professionals may not agree on the measurement of beta

*Answer: d; Difficulty: 1 Keywords: Beta*

1. Which of the following is the slope of the security market line?
	1. beta
	2. one
	3. it varies, and is steeper for riskier securities
	4. the market risk premium

*Answer: d; Difficulty: 2; Keywords: Security Market Line, Market Risk Premium*

1. What is the name given to the equation that financial managers use to measure an investor's required rate of return?
	1. the standard deviation
	2. the capital asset pricing model
	3. the coefficient of variation
	4. the MIRR

*Answer: b; Difficulty: 1; Keywords: CAPM*

1. You are considering an investment in First Allegiance Corp. The firm has a beta of 1.62. Currently, U.S. Treasury bills are yielding 6.75% and the expected return for the S & P 500 is 18.2%. What rate of return should you expect for your investment in First Allegiance?
	1. 10.9%
	2. 25.3%
	3. 16.8%
	4. 29.5%

*Answer: b; Difficulty: 2; Keywords: Security Market Line, Required Return*

1) As the price of a bond \_\_\_\_\_\_\_\_ and the expected return \_\_\_\_\_\_\_\_, bonds become more attractive to investors and the quantity demanded rises.

A) falls; rises

B) falls; falls

C) rises; rises

D) rises; falls

Answer: A

Topic: Chapter 4.1 Determining Asset Demand

Question Status: Previous Edition

2) The supply curve for bonds has the usual upward slope, indicating that as the price \_\_\_\_\_\_\_\_, ceteris paribus, the \_\_\_\_\_\_\_\_ increases.

A) falls; supply

B) falls; quantity supplied

C) rises; supply

D) rises; quantity supplied

Answer: D

Topic: Chapter 4.2 Supply and Demand in the Bond Market

Question Status: Previous Edition

3) When the price of a bond is above the equilibrium price, there is excess \_\_\_\_\_\_\_\_ in the bond market and the price will \_\_\_\_\_\_\_\_.

A) demand; rise

B) demand; fall

C) supply; fall

D) supply; rise

Answer: C

Topic: Chapter 4.2 Supply and Demand in the Bond Market

Question Status: Previous Edition

4) When the price of a bond is below the equilibrium price, there is excess \_\_\_\_\_\_\_\_ in the bond market and the price will \_\_\_\_\_\_\_\_.

A) demand; rise

B) demand; fall

C) supply; fall

D) supply; rise

Answer: A

Topic: Chapter 4.2 Supply and Demand in the Bond Market

Question Status: Previous Edition

5) When the price of a bond is \_\_\_\_\_\_\_\_ the equilibrium price, there is an excess supply of bonds and the price will \_\_\_\_\_\_\_\_.

A) above; rise

B) above; fall

C) below; fall

D) below; rise

Answer: B

Topic: Chapter 4.2 Supply and Demand in the Bond Market

Question Status: Previous Edition

6) When the price of a bond is \_\_\_\_\_\_\_\_ the equilibrium price, there is an excess demand for bonds and the price will \_\_\_\_\_\_\_\_.

A) above; rise

B) above; fall

C) below; fall

D) below; rise

Answer: D

Topic: Chapter 4.2 Supply and Demand in the Bond Market

Question Status: Previous Edition

7) When the interest rate on a bond is above the equilibrium interest rate, there is excess \_\_\_\_\_\_\_\_ in the bond market and the interest rate will \_\_\_\_\_\_\_\_.

A) demand; rise

B) demand; fall

C) supply; fall

D) supply; rise

Answer: B

Topic: Chapter 4.3 Changes in Equilibrium Interest Rates

Question Status: Previous Edition

8) When the interest rate on a bond is below the equilibrium interest rate, there is excess \_\_\_\_\_\_\_\_ in the bond market and the interest rate will \_\_\_\_\_\_\_\_.

A) demand; rise

B) demand; fall

C) supply; fall

D) supply; rise

Answer: D

Topic: Chapter 4.3 Changes in Equilibrium Interest Rates

Question Status: Previous Edition

9) When the interest rate on a bond is \_\_\_\_\_\_\_\_ the equilibrium interest rate, there is excess \_\_\_\_\_\_\_\_ in the bond market and the interest rate will \_\_\_\_\_\_\_\_.

A) above; demand; fall

B) above; demand; rise

C) below; supply; fall

D) above; supply; rise

Answer: A

Topic: Chapter 4.3 Changes in Equilibrium Interest Rates

Question Status: Previous Edition

10) When the interest rate on a bond is \_\_\_\_\_\_\_\_ the equilibrium interest rate, there is excess \_\_\_\_\_\_\_\_ in the bond market and the interest rate will \_\_\_\_\_\_\_\_.

A) below; demand; rise

B) below; demand; fall

C) below; supply; rise

D) above; supply; fall

Answer: C

Topic: Chapter 4.3 Changes in Equilibrium Interest Rates

Question Status: Previous Edition

11) When the demand for bonds \_\_\_\_\_\_\_\_ or the supply of bonds \_\_\_\_\_\_\_\_, interest rates rise.

A) increases; increases

B) increases; decreases

C) decreases; decreases

D) decreases; increases

Answer: D

Topic: Chapter 4.2 Supply and Demand in the Bond Market

Question Status: Previous Edition

12) When the demand for bonds \_\_\_\_\_\_\_\_ or the supply of bonds \_\_\_\_\_\_\_\_, interest rates fall.

A) increases; increases

B) increases; decreases

C) decreases; decreases

D) decreases; increases

Answer: B

Topic: Chapter 4.2 Supply and Demand in the Bond Market

Question Status: Previous Edition

13) When the demand for bonds \_\_\_\_\_\_\_\_ or the supply of bonds \_\_\_\_\_\_\_\_, bond prices rise.

A) increases; decreases

B) decreases; increases

C) decreases; decreases

D) increases; increases

Answer: A

Topic: Chapter 4.2 Supply and Demand in the Bond Market

Question Status: Previous Edition

14) When the demand for bonds \_\_\_\_\_\_\_\_ or the supply of bonds \_\_\_\_\_\_\_\_, bond prices fall.

A) increases; increases

B) increases; decreases

C) decreases; decreases

D) decreases; increases

Answer: D

Topic: Chapter 4.2 Supply and Demand in the Bond Market

Question Status: Previous Edition

15) Factors that determine the demand for an asset include changes in the

A) wealth of investors.

B) liquidity of bonds relative to alternative assets.

C) expected returns on bonds relative to alternative assets.

D) risk of bonds relative to alternative assets.

E) all of the above.

Answer: E

Topic: Chapter 4.1 Determining Asset Demand

Question Status: Previous Edition

16) The demand for an asset rises if \_\_\_\_\_\_\_\_ falls.

A) risk relative to other assets

B) expected return relative to other assets

C) liquidity relative to other assets

D) wealth

Answer: A

Topic: Chapter 4.1 Determining Asset Demand

Question Status: Previous Edition

17) The higher the standard deviation of returns on an asset, the \_\_\_\_\_\_\_\_ the asset's \_\_\_\_\_\_\_\_.

A) greater; risk

B) smaller; risk

C) greater; expected return

D) smaller; expected return

Answer: A

Topic: Chapter 4.1 Determining Asset Demand

Question Status: Previous Edition

18) Diversification benefits an investor by

A) increasing wealth.

B) increasing expected return.

C) reducing risk.

D) increasing liquidity.

Answer: C

Topic: Chapter 4.A1 Models of Asset Pricing

Question Status: Previous Edition

19) In a recession when income and wealth are falling, the demand for bonds \_\_\_\_\_\_\_\_ and the demand curve shifts to the \_\_\_\_\_\_\_\_.

A) falls; right

B) falls; left

C) rises; right

D) rises; left

Answer: B

Topic: Chapter 4.1 Determining Asset Demand

Question Status: Previous Edition

20) During business cycle expansions when income and wealth are rising, the demand for bonds \_\_\_\_\_\_\_\_ and the demand curve shifts to the \_\_\_\_\_\_\_\_.

A) falls; right

B) falls; left

C) rises; right

D) rises; left

Answer: C

Topic: Chapter 4.1 Determining Asset Demand

Question Status: Previous Edition

21) Higher expected interest rates in the future \_\_\_\_\_\_\_\_ the demand for long-term bonds and shift the demand curve to the \_\_\_\_\_\_\_\_.

A) increase; left

B) increase; right

C) decrease; left

D) decrease; right

Answer: C

Topic: Chapter 4.1 Determining Asset Demand

Question Status: Previous Edition

22) Lower expected interest rates in the future \_\_\_\_\_\_\_\_ the demand for long-term bonds and shift the demand curve to the \_\_\_\_\_\_\_\_

A) increase; left.

B) increase; right.

C) decrease; left.

D) decrease; right.

Answer: B

Topic: Chapter 4.1 Determining Asset Demand

Question Status: Previous Edition