finance

Udayan Roy

Started: December 13, 2008 12:06 PM

Questions: 20

Finish Save All Help

Instructions

This assignment is based on Chapter 27 (Basic Tools of Finance) of the textbook. You have 10 hours to complete the 20 questions.

You may answer a few questions, SAVE your answers (without SUBMIT-ing them!), go do something else (have dinner, watch a movie, whatever), and then return to the assignment. Warning: The clock will be ticking while you are away! When you have answered *all* questions, please SAVE your answers and SUBMIT them. That would complete your assignment.

This is very important: Please **print out a copy** of your completed assignment, with your chosen answers clearly visible. Please keep me informed of your views on these WebCT assignments.

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1. (Points: 1)

Which of the following is the correct way to figure the future value of $\$X$ that earns interest at the rate r for N years?

- a. $\$X(1 + rN)^N$
- b. $\$X(1 + r)^N$
- c. $\$X(1 + rN)$
- d. $\$X(1 + r/N)N$

Save Answer

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2. (Points: 1)

Which of the following is the correct way to figure the future value of $100 put in an account that earns 4 percent for 10 years?

- a. $\$100(1 + .04^{10})$
- b. $\$100(1 + .04 \times 10)$
- c. $\$100 \times 10 \times (1 + .04)$
- d. $\$100(1 + .04)^{10}$

Save Answer

3. (Points: 1)

Jamie deposited $1,000 into an account two years ago. The first year she earned 5 percent interest, the second she earned 6 percent. How much money does she have in her account today?

- a. $1111.11
- b. $1113.00
- c. $1131.33
- d. None of the above are correct to the nearest penny.

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4. (Points: 1)

Which of the following is the correct expression for finding the present value of a $500 payment two years from today if the interest rate is 4 percent?

- a. $\$500/(1.04)^2$
- b. $\$500 - 500(1.04)^2$
- c. $\$500 - \$500/(.04)^2$
- d. None of the above is correct.

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5. (Points: 1)

Which of the following changes would decrease the present value of a future payment?

- a. a decrease in the size of the payment
- b. an increase in the time until the payment is made
- c. an increase in the interest rate
- d. All of the above are correct.

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6. (Points: 1)

You have a bond that will pay you $10,000 one year from now. The interest rate is 10 percent per year. How much is the bond worth today? (That is what is the maximum that you would pay for the bond today?)

- a. $9,090.91
- b. $10,000.00
- c. $8,264.46
- d. 9,523.81

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7. (Points: 1)

Other things the same, as the interest rate rises, the present value of future revenues from investment projects

- a. rise, so investment spending rises.
- b. fall, so investment spending rises.
- c. rise, so investment spending falls.
- d. fall, so investment spending falls.

Save Answer

8. (Points: 1)

HydroGrow is considering building a new building in which to grow tomatoes. The board meets and decides that this is the right thing to do. Before they can put their plans into action, the interest rate increases. The present value of the returns from this investment project

- a. falls, and so Hydro Grow is less likely to build the building.
- b. falls, and so HydroGrow is more likely to build the building.
- c. rise, and so HydroGrow is less likely to build the building.
- d. rise, and so HydroGrow is more likely to build the building.

Save Answer

9. (Points: 1)

Which of the following is correct concerning a risk-averse person?

- a. She would not play games where the probability of winning and losing a dollar are the same.
- b. She might not buy health insurance if she thinks her risks are low.
- c. Her marginal utility of wealth decreases as her income increases.
- d. All of the above are correct.

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10. (Points: 1)

Risk

- a. can be reduced by placing a large number of small bets rather than a small number of large bets.
- b. can be reduced by increasing the number of stocks in a portfolio.
- c. Both A and B are correct.
- d. Neither A nor B are correct.

Save Answer

11. (Points: 1)

Which of the following is adverse selection?

- a. the risk associated with selecting stocks in only a few specific companies
- b. the risk that a person will become overconfident in his ability to select stocks
- c. a high-risk person being more likely to apply for insurance
- d. after obtaining insurance a person having less incentive to be careful

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12. (Points: 1)

Which of the following best illustrates moral hazard?

- a. After a person obtains life insurance, she takes up skydiving.
- b. A person obtains insurance knowing he is in poor health.
- c. A person holds stock only in very risky corporations.
- d. A person holds stocks from only a few corporations.

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13. (Points: 1)

Risk-averse people will choose different asset portfolios than people who are not risk averse. Over a long period of time, we would expect that

- a. every risk-averse person will earn a higher rate of return than every non-risk averse person.
- b. every risk-averse person will earn a lower rate of return than every non-risk averse person.
- c. the average risk-averse person will earn a higher rate of return than the average non-risk averse person.
- d. the average risk-averse person will earn a lower rate of return than the average non-risk averse person.

Save Answer

14. (Points: 1)

Mary talked to several stockbrokers and made the following conclusions. Which, if any, of her conclusions are correct?

- a. It is relatively easy to reduce firm-specific risk by increasing the number of companies one holds stock in.
- b. Stock prices, even if not exactly a random walk, are very close to it.
- c. Some people have made a lot of money in the stock market by using insider information, but these cases are not contrary to the efficient markets hypothesis.
- d. All of Mary’s conclusions are correct.

Save Answer

15. (Points: 1)

Which of the following is correct concerning diversification?

- a. It only reduces firm-specific risk, but most of the reduction comes from increasing the numbe of stocks in a portfolio to well above 30.
- b. It only reduces firm-specific risk; much of the reduction comes from increasing the number of stocks in a portfolio from 1 to 30.
- c. It only reduces market risk, but most of the reduction comes from increasing the number of stocks in a portfolio to well above 30.
- d. None of the above is correct.

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16. (Points: 1)

Which of the flowing is correct?

- a. Risk-averse people will not hold stock.
- b. Diversification cannot reduce firm-specific risk.
- c. The larger the percentage of stock in a portfolio, the greater the risk, but the greater the average return.
- d. Stock prices are determined by fundamental analysis rather than supply and demand.

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17. (Points: 1)

Suppose that fundamental analysis shows a stock is overvalued

- a. This means its present value is less than its price. You should consider adding the stock to your portfolio.
- b. This means its present value is less than its price. You shouldn't consider adding the stock to your portfolio.

c. This means its present value is more than its price. You should consider adding the stock to your portfolio.

d. This means its present value is more than its price. You shouldn’t consider adding the stock to your portfolio.

Save Answer

18. (Points: 1)

An index fund

a. holds only stocks and bonds that are indexed to inflation.

b. holds all the stocks in a given stock index.

c. guarantees a return that follows the index of leading economic indicators.

d. typically has a lower return than a managed fund.

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19. (Points: 1)

If the efficient market hypothesis is correct, then

a. index funds should typically beat managed funds, and usually do.

b. index fund should typically beat managed funds, but usually do not.

c. mutual funds should typically beat index funds, and usually do.

d. mutual funds should typically bet index funds, but usually do not.

Save Answer

20. (Points: 1)

Which of the following is correct?

a. Managed funds typically have a higher return than indexed funds. This tends to refute the efficient market hypothesis.

b. Managed funds typically have a higher return than indexed funds. This tends to support the efficient market hypothesis.

c. Index funds typically have a higher rate of return than managed funds. This tends to refute the efficient market hypothesis.

d. Index funds typically have a higher rate of return than managed funds. This tends to support the efficient market hypothesis.

Save Answer

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