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QUESTION: 1

All of the following are true concerning the Yield-to-Maturity (YTM) of a bond EXCEPT:

- A. It is sometimes known as the dollar-weighted return
- B. YTM assumes that the investor reinvests all coupons received from a bond at a rate equal to the computed YTM
- C. YTM is the promised rate of return an investor will receive from a bond at the current market price if held to maturity
- D. The premium or discount on the bond is not an important factor in the calculation of YTM

Answer: D

Explanation:

YTM is the promised rate of return an investor will receive from a bond at the current market price if held to maturity. YTM takes into account the amount of the premium or discount (if any) and the time value of the investment. To calculate the YTM you must know the present value of the bond, future value, time to maturity, and the coupon rate. YTM is similar to the internal rate of return (IRR) it is also called dollar-weighted return

QUESTION: 2

An investor that holds a corporate bond until maturity will be exposed to all of the following risks EXCEPT:

- A. Interest rate risk
- B. Credit risk
- C. Inflationary Risk
- D. Call risk

Answer: A

Explanation:

At maturity date, it makes neither difference what the bonds coupon is nor its relationship to current interest rates. The bond always pays off at par. Inflation, credit risk, and call risk are all risks associated with buying corporate bonds

QUESTION: 3

You invest \$1,000 in a mutual fund for two years. The mutual fund earned 25% in the first year and lost 10% in the second year. How much is your mutual fund worth at the end of the second year?

- A. \$1,125
- B. \$1,150
- C. \$1,375
- D. \$1,250

Answer: A

Explanation:

If you invest \$1,000 and earn 25% you will now have \$1,250 at the end of the first year ($\$1,000 \text{ times } (1+0.25)=\$1,250$). Now you have \$1,250 and earn -10% in the second year, so you are now left with \$1,125 at the end of the second year ($\$1,250 \text{ times } (1-.10)=\$1,125$)

QUESTION: 4

Investing in mutual funds is a common way for investors to obtain diversification in an effort to reduce what type of risk?

- A. Purchasing power risk
- B. Interest rate risk
- C. Reinvestment rate risk
- D. Business risk

Answer: D

Explanation:

Unsystematic risk is known as business or diversifiable risk. The other three risks listed are systematic or non-diversifiable risks.

QUESTION: 5

Which of the following pertaining to beta are correct?

- I. A stock with a beta of 1 are expected to move exactly with the market
- II. Stocks with high positive betas greater than 1 have volatile earnings
- III. Stocks with betas less than 1 have greater risk than the market

IV. A negative beta indicates the stock moves in the same direction as the market

- A. I and III only
- B. I, II, and III
- C. II and IV only
- D. I and II only

Answer: D

Explanation:

Beta is a measure of the volatility of a particular security's rate of return or price relative to the volatility of the market as a whole. The market as a whole has a beta of 1.0. A beta of less than 1 indicates that the stock's return fluctuates less than the market as a whole. A beta greater than 1 indicates that the stock's return fluctuates more than the market as a whole. A portfolio with a negative beta of (-1) indicates that the stock moves exactly opposite to that of the market

QUESTION: 6

Which of the following statements about inflation is correct?

- A. The Producer Price Index (PPI) is the leading indicator of inflation trends
- B. Inflation is often caused by a reduction in the supply of money
- C. The Consumer Price Index (CPI) is the leading indicator of inflation trends
- D. The Federal Reserve Board tries to control inflation by lowering interest rates

Answer: A

Explanation:

The Consumer Price Index (CPI) is a measure of the change in consumer prices of goods and services. The Producer Price Index (PPI) is a measure of the change in wholesale prices. The leading indicator of inflation trends is the PPI, as this cost rises- they are "passed on" to consumers and reflected in the CPI. If the Federal Reserve Board wanted to control inflation they would raise interest rates. Deflation is caused by a reduction in the supply of money.

QUESTION: 7

The Inflation-Adjusted Return (Real Rate of Return) is best described as which of the

following:

- A. The current interest rate less the inflation rate
- B. Inflation rate plus the annual return of the underlying investment
- C. The difference between the inflation rate and the current T-bill rate
- D. The monthly CPI figure adjusted to reflect an annual return

Answer: A

Explanation:

The inflation-adjusted return is simply the current interest rate less the inflation rate. If the expected return of an investment is less than the inflation rate it would not be a favorable investment.

QUESTION: 8

Which of the following are true statements concerning Gross Domestic Product (GDP)?

- I. The foreign efforts of domestic companies are included in GDP
- II. GDP is always quoted in constant terms
- III. Personal consumption expenditures are not a part of GDP
- IV. Government expenditures are included in GDP

- A. II and IV only
- B. I and II only
- C. I and IV only
- D. II and III only

Answer: A

Explanation:

The Gross Domestic Product (GDP) attempts to measure the total production of goods and services within the economy. GDP only measures domestic production, whereas; Gross National Product (GNP) also includes foreign efforts of domestic companies. GDP consists of personal consumption expenditures, non-residential investment, residential investment, and government expenditures. GDP is always quoted in constant dollars

QUESTION: 9

Which of the following tools are used by the Federal Reserve to control the money supply?

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