

## Finance 1<sup>st</sup> quiz Feb. 17th (in class)

Name:

1. Managerial finance entails making decisions about
  - a. Investment portfolios held by individual investors.
  - b. The regulation and deregulation of the banking industry.
  - c. How businesses acquire and use (invest) funds.
  - d. Which corporate stocks and bonds are mispriced in the financial markets.
  - e. All of the above.
  
- 2.. Which of the following is **NOT** a concept that you need to understand to make rational financial decisions?
  - a. More value is preferred to less value.
  - b. Less risky assets are preferred to riskier assets.
  - c. Current cash is more valuable than cash in the future.
  - d. Discount rate is a decreasing function of risk.
  - e. All of the above are needed.
  
3. What major factor(s) led to the U.S. economic woes which started in 2007?
  - a. U.S. overseas military engagements.
  - b. A decline in real estate values which resulted in increased mortgage defaults and foreclosures and a decline in financial markets.
  - c. The European economic crisis.
  - d. Inflation and manufacturing outsourcing.
  - e. None of the above.
  
4. Eurodebt is the term used to designate
  - a. Debt sold by a foreign borrower that is denominated in the currency of the country where it is sold.
  - b. European bank loans that are denominated in the new Euro currency.
  - c. Debt that is denominated in a currency that is different than the currency of the country in which it is sold.
  - d. Equity instruments of one country that are sold in another country.
  - e. The certificates that represent ownership in foreign companies that are sold in the United States.
  
5. An American Depository Receipt (ADR) represents
  - a. Debt sold by a foreign borrower that is denominated in the currency of the country where it is sold.
  - b. Stock of foreign companies that is sold directly to investors in the United States.
  - c. Equity instruments of one country that are sold in another country.
  - d. The certificates that represent ownership in foreign companies that are sold in the United States.
  - e. Certificates representing ownership in stocks of foreign companies that are held in trust by a bank located in the country the stock is traded.

6. B & O Railroad's convertible debentures were issued at their \$1,000 par value in 2008. At any time prior to maturity on February 1, 2028, a debenture holder can exchange a bond for 25 shares of common stock. What is the conversion price?

7. A(n) \_\_\_\_\_ is generally obtained from a bank or insurance company and the borrower agrees to make a series of payments consisting of interest and principal.

- a. puttable bond
- b. bankers acceptance
- c. income bond
- d. term loan
- e. certificate of deposit

8. A(n) \_\_\_\_\_ is a bond that pays no annual interest but is sold at a discount below par, thus providing compensation to investors in the form of capital appreciation.

- a. coupon bond
- b. income bond
- c. convertible bond
- d. zero coupon bond

9. Which of the following is **NOT** a type of debt?

- a. commercial paper
- b. certificate of deposit
- c. term loan
- d. preferred stock

10. An investor purchased a call option that allows her to purchase 100 shares of Dell Computer common stock for \$45 per share any time during the next six months. The price she paid for the option was \$2.50 per share, or \$250 total, and the current market price of Dell's stock is \$42.50. If the price of Dell increases to \$50 and the investor decides to exercise it, what will be the gain or loss that results from the option position that was held? Ignore taxes and commissions.