Finance 4th quiz   November 20 (in class)

Name:

1. You have just purchased a 10-year, $1,000 par value bond. The coupon rate on this bond is 8 percent annually, with interest being paid each 6 months. If you expect to earn a 10 percent simple rate of return on this bond, how much did you pay for it?

   a. $1,122.87
   b. $1,003.42
   c. $875.38
   d. $950.75
   e. $812.15

2. You intend to purchase a 10-year, $1,000 face value bond that pays interest of $60 every 6 months. If your simple annual required rate of return is 10 percent with semiannual compounding, how much should you be willing to pay for this bond?

   a. $826.31
   b. $1,086.15
   c. $957.50
   d. $1,431.49
   e. $1,124.62

3. Suppose that you read in *The Wall Street Journal* that a bond has a coupon rate of 9 percent, a price of 71 3/8, and pays interest annually. Rounded to the nearest whole percent, what would be the bond's "current" yield?

   a. 11%
   b. 13%
   c. 15%
   d. 17%
   e. 20%

4. A share of common stock has a current price of $82.50 and is expected to grow at a constant rate of 10 percent. If you require a 14 percent rate of return, what is the current dividend on this stock?

   a. $3.00
   b. $3.81
   c. $4.29
   d. $4.75
   e. $6.13

5. Which of the following will generally result in a higher price for a bond?

   a. Higher coupon rate.
   b. Longer maturity.
   c. Shorter maturity.
   d. Higher required rate of return.

6. You have developed the following data on three stocks:

Stock	Standard Deviation	Beta
A	0.15	0.79
B	0.25	0.61
C	0.20	1.29

If you are a risk minimizer, you should choose Stock ____ if it is to be held in isolation and Stock ____ if it is to be held as part of a well-diversified portfolio.

a. A; A
b. A; B
c. B; A
d. C; A
e. C; B

7. Inflation, recession, and high interest rates are economic events which are characterized as

a. Company specific risk that can be diversified away.
b. Market risk.
c. Systematic risk that can be diversified away.
d. Diversifiable risk.
e. Unsystematic risk that can be diversified away.

8. ____ is the appropriate measure for stand-alone risk and ____ is the appropriate measure of risk when adding an asset to a diversified portfolio.

a. beta; variance
b. beta; standard deviation
c. standard deviation; beta
d. standard deviation; variance

9. Which type of risk can be eliminated through diversification?

a. total risk
b. market risk
c. firm specific risk
d. none of the above

10. What is CAPM (capital asset pricing model)?