|  |  |  |
| --- | --- | --- |
| **Stocks** | **Bonds** | **Commodities** |
| **Probability** | **Return** | **Probability** | **Return** | **Probability** | **Return** |
| 0.25 | 12% | 0.6 | 10% | 0.2 | 20% |
|  | 10% | 0.4 | 7.50% | 0.25 | 12% |
|  | 8% |  |  | 0.25 | 6% |
|  | 6% |  |  | 0.25 | 4% |
|  |  |  |  | 0.05 | 0% |

Suppose you decided to invest and these were your choices.

(A)Which investments would you choose to maximize your expected return for stocks, bonds or commodities?

(B)If you are risk-averse and had to choose between the stock or the bond investments which would you choose and why

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If a $5,000 coupon bond has a coupon rate of 13 percent, then the coupon payment every year is

A) $650.(B) $1,300.(C) $130.(D) $13.

 3

With an interest rate of 6 percent, the present value of $100 next year is approximately

1. $106.(B) $100 (C) $94.(D) $92.

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If you expect the inflation rate to be 4 percent next year and a one year bond has a yield to maturity of 7 percent, then the real interest rate on this bond is

1. -3 percent.(B) -2 percent.(C) 3 percent,(D) 7 percent.

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Which of the following $5,000 face-value securities has the highest yield to maturity?

A) A 6 percent coupon bond selling for $5,00

B) A 6 percent coupon bond selling for $5,500

C) A 10 percent coupon bond selling for $5,000

D) A 12 percent coupon bond selling for $4,500