1. If you put $1,000 in a savings account with a 5% nominal rate of interest compounded quarterly, what will the investment be worth in 6 years (round to the nearest dollar)?

a. $1,003

b. $,1,132

c. $ 1,228

d. $ 1,347

2. As market rates of interest rise, investors move their funds into bonds, thus increasing their price and lowering their yield.

a . True

b. False

3. You are considering an investment in First Allegiance Corp. The firm has a beta of 1.62. Currently, U.S. Treasury bills are yielding 6.75% and the expected return for the S & P 500 is 18.2%. What rate of return should you expect for your investment in First Allegiance?

a. 10.9

b. 25.3

c. 16.8

d. 29.5

4. Podunk Communications bonds mature in 6 1/2 years with a par value of $1,000. They pay a coupon rate of 9% with semi-annual payments. If the required rate of return on these bonds is 11% what is the bond's value?

a. $1,026.73

b. $973.76

c. $1,022.74

d. $908.83

5. We can use the present value of an annuity formula to calculate constant annual loan payments.

a. True

b. False

6. Which of the following is NOT a definition of yield to maturity:

a. discount rate that equates present value of future cash flows with a bond's price

b. investors' expected rate of return on a bond investment

c. return that an investor will earn if they buy the bond for its market price and hold it until maturity

d. all of the above are definitions of yield to maturity

7. To evaluate or compare investment proposals, we must adjust the value of all cash flows to a common date.

a. True

b. False

8. When repaying an amortized loan, the interest payments increase over time due to the compounding process.

True

False

9. OatEaters Corporation bonds are currently priced at $953.77. They have a par value of $1,000 and 6 years to maturity. They pay an annual coupon rate of 7%. What is the yield to maturity on this bond?

a. 4%

b. 6 ½%

c. 19%

d. 8%

10. iSaga, whose common stock is currently selling for $12 per share, is expected to pay a $1.80 dividend, and sell for $14.40 one year from now. What are the dividend yield, growth rate, and total rate of return, respectively?

a. 15% 20% 35%

b. 10% 5% 15%

c. 15% 12% 27%

d. 20% 15% 35%

11. Yanti Corp. preferred stock has a 5% stated dividend percentage, and a $100 par value. What is the value of the stock if your required rate of return is 6% per year (nearest $1)?

a. $83.33

b. $100

c. $120

d. $3,000

12. The future value of an investment increases as the number of periods of compounding at a positive rate of interest increases.

a. True

b. False

13. Determining the accumulated value of an investment upon maturity is an example of the application of the future value equation.

a. True

b. False

14. The appropriate measure for risk according to the capital asset pricing model is:

a. the standard deviation of a firms cash flows

b. alpha

c. the coefficient of variation of a firm's cash flows

d. none of the above

15. Bell Weather Inc. has a beta of 1.25. The return on the market portfolio is 12.5% and the risk free rate is 5%. According to CAPM, what is the required return on this stock?

a. 20.62%

b. 9.37%

c. 14.38%

d. 15.62%