1. The future value of an annuity due is greater than the future value of an otherwise identical ordinary annuity.

a . True

b. False

2. If we invest money for 10 years at 8 percent interest, compounded semi-annually, we are really investing money for 20 six-month periods, and receiving 4 percent interest each period.

a. True

b. False

3. What is the expected rate of return on a bond that matures in 7 years, has a par value of $1,000, a coupon rate of 14%, and is currently selling for $911? Round your answer to the nearest whole percent, and assume annual coupon payments.

a. 15%

b. 14%

c. 2%

d. 16%

4. How can investors reduce the risk associated with an investment portfolio without having to accept a lower expected return?

a. Wait until the stock market rises.

b. Increase the amount of money invested in the portfolio.

c. Purchase a variety of securities; i.e., diversify

d. Purchase stocks that have exceptionally high standard deviations.

5. Bartiromo, Inc. bonds have a 6% coupon rate with semi-annual coupon payments and a $1,000 par value. The bonds have 14 years until maturity, and sell for $950. What is the current yield for Bartiromo's bonds?

a. 3.28%

b. 6.32%

c. 6.55%

d. 7.52%

6. Preferred stock is similar to a bond in the following way:

a. preferred stock always contains a maturity date

b. both investments provide a stated income stream

c. both contain a growth factor similar to common stock

d. both provide interest payments

7. By investing in different securities, an investor can lower his exposure to risk

a. True

b. False

8. The value of a bond investment, which provides fixed interest payments, will increase when discounted at a 12% rate rather than at a 7% rate.

a. True

b. False

9. How much would you be willing to pay for a 10-year ordinary annuity if the payments are $500 per year and the rate of return is 6.25% annually?

a. $3,423

b. $3,637

c. $3,864

d. $4,132

10. A common protective provision in a bond indenture is the limitation of dividends on the issuing firm's common stock.

a. True

b. False

11. How much money must be put into a bank account yielding 3.5% (compounded annually) in order to have $1,250 at the end of 10 years (round to nearest $1)?

a. $921

b. $886

c. $843

d. $798

12. In general, the required rate of return is a function of (1) the time value of money, (2) the risk of an asset, and (3) the investor's attitude toward risk.

a. True

b. False

13. If you put $10 in a savings account at the beginning of each year for 11 years, how much money will be in the account at the end of the 11th year? Assume that the account earns 11% and round to the nearest $10.

a. $220

b. $200

c. $190

d. $180

14. Assume that you have $100,000 invested in a stock whose beta is .85, $200,000 invested in a stock whose beta is 1.05, and $300,000 invested in a stock whose beta is 1.25. What is the beta of your portfolio?

a. 0.97

b. 1.02

c. 1.21

d. 1.12

15. N. Ron Corp. preferred stock pays a $.15 annual dividend. What is the value of the stock if your required rate of return is 25%.

a. $.06

b. $.60

c. $6.00

d. $60.00

16. If you have $20,000 in an account earning 8 percent annually, what constant amount could you withdraw each year and have nothing remaining at the end of 5 years?

a. $5,009

b. $4,755

c. $3,409

d. $2,466