

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question. All questions are worth 1 mark unless otherwise indicated.

- 1) Should you purchase stock for big companies like Royal Bank of Canada, Canadian Pacific Ltd., and General Electric, you would be buying shares of _____ stocks.
 - A) defensive
 - B) income
 - C) cyclical
 - D) growth
 - E) blue-chip

- 2) This formula, stock price/book value per share, is a useful figure that tells us the market-to-book ratio.
 - B) earnings per share.
 - C) book-to-price ratio.
 - D) stock growth.
 - E) dividend yield.

- 3) Calculate the yield-to-maturity of a \$1,000 bond that has an annual coupon rate of ten percent, pays interest annually, has ten years until maturity and a current market price of \$900.00 (round answers to two decimal points)
 - A) 1.96%
 - B) 11.75%
 - C) 12.00%
 - D) 23.50%
 - E) None of the above answers are correct.

- 4) The discounted dividends valuation model of common stock assumes that dividends will grow at a constant rate forever. This method tells us that the dividend at the end of year 1 divided by the (required rate of return minus the growth rate) yields the
 - A) dividend growth rate.
 - B) value of the common stock.
 - C) value of the P/E ratio.
 - D) discounted dividend.
 - E) value of the earnings.

- 5) The largest single player and payer in the bond market is
 - A) foreign firms.
 - B) municipal bond issuers.
 - C) the Government of Canada.
 - D) provincial governments.
 - E) corporate Canada.

- 6) What would one be losing by switching to a money market mutual fund?
* A) some return because of the short-term interest rates to which it is tied
B) the low annual maintenance fees
C) the safety
D) the diversification
E) none of the above
- 7) It's a fact that there is a (an) direct relationship between interest rates and bond values in the secondary market. When interest rates drop, bond values rise, and when interest rates rise, bond values drop
A) direct, rise, drop, drop, rise
 B) direct, drop, rise, rise, drop
C) inverse, rise, drop, drop, rise
D) inverse, rise, rise, drop, drop
E) direct, rise, rise, drop, drop
- 8) Because of her children's immediate financial needs, your aunt Marsha has decided to switch some of her money to high grade utility company stocks. Her reasoning is that these _____ stocks pay relatively high dividends that she will give to her children as they need assistance.
A) blue-chip
B) growth
C) cyclical
D) safe
 E) income
- 9) Calculate the present value of a \$10 ordinary annuity that grows at 8% per year. Assume that the discount rate is 10%. Also assume that the payment grows at a constant, compounded rate to infinity and that the first payment is at the end of the current year.
A) \$100
B) \$125
C) \$500
D) The correct answer cannot be computed with the given information
E) None of the above answers are correct
- 10) This approach is used regularly by security analysts to measure a stock's relative value, or how much investors are willing to pay for a dollar of the company's earnings. It is found by dividing the price per share by the earnings per share and is called the
A) fundamental analysis.
B) discounted dividends valuation.
C) market-to-price ratio.
 D) P/E ratio.
E) technical industry analysis.

- 11) Kathy Faust was paid all of her past dividends before any common stock dividends were declared. Obviously, she profited from preferred stock's _____ feature.
- A) cumulative
 - B) adjustable rate
 - C) convertible
 - D) callability
 - E) multiple issue
- 12) Calculate the value of ABC stock assuming that it will pay a \$1 dividend at the end of the current year and that the dividend is expected to grow at a 10% growth rate indefinitely in the future. Assume the investor's require a 15% required rate of return.
- A) \$6.67
 - B) \$100
 - C) \$10
 - D) \$20
 - E) None of the above answers are correct
- 13) Jacqueline is attempting to determine the value of her preferred stock. She can determine the value by dividing the annual preferred stock dividend by the _____.
- A) the investor's required rate of return
 - B) market price
 - C) book value
 - D) closing price
 - E) par value
- 14) The value of a speculative investment is determined by
- A) its return.
 - B) supply and demand.
 - C) its cost.
 - D) book value.
 - E) none of the above
- 15) According to the textbook, a mutual fund that attempts to maximize capital appreciation would be identified as a (n) _____ fund.
- A) aggressive growth
 - B) growth and income
 - C) index
 - D) balanced
 - E) large-company

- 21) Bond issuers do something very important for the bondholder that increases the probability the debt will be successfully paid off at maturity. The issuer
- A) has the bond insured.
 - B) sets a fixed interest rate.
 - C) establishes a sinking fund.
 - D) has the bond registered with the OSC.
 - E) has the bond secured.
- 22) Being somewhat scared of her present mutual fund, Debra is looking into money market mutual funds. What advantage does this type of fund have for her?
- A) There are minimal annual fees
 - B) Offers a superior return relative to bank accounts
 - C) It is practically risk-free.
 - D) A small minimum investment exists.
 - E) all of the above
- 3) When comparing the investment potential of a debenture relative to a mortgage bond, it is of greater importance to be certain of the _____ of the firm that is issuing the debenture.
- A) risk
 - B) interest rate
 - C) return
 - D) earning ability
 - E) none of the above
- 4) The following formula, $\text{annual dividend} / \text{market price of the stock}$, gives us the
- A) dividend yield.
 - B) market-to-book ratio.
 - C) earnings per share.
 - D) price-to-book ratio.
 - E) stock growth.
- 5) Which of the following statements about preferred stock is false?
- A) It has no fixed maturity date.
 - B) Dividends are of a fixed size.
 - C) Common stock dividends are paid before preferred stock dividends.
 - D) Not paying dividends won't bring on bankruptcy.
 - E) Preferred stockholders don't share in any increase in the profits of the firm over time.

- 26) Peggy Sue is a beginning investor. She has chosen mutual funds. Help her take the proper steps in order to get started.
- A) Identify funds that meet your objectives, determine your investment goals, and evaluate the fund selected.
 - B) Determine your investment goals, evaluate the fund selected, and identify funds that meet your objectives.
 - C) Determine your investment goals, identify funds that meet your objectives, and evaluate the fund selected.
 - D) Identify funds that meet your objectives, evaluate the fund selected, and determine your investment goals.
 - E) Evaluate the fund selected, determine your investment goals, and identify funds that meet your objectives.
- 27) A couple buys a car worth \$20,000 taking out a car loan for the whole amount. The loan is at 9% compounded monthly and will be repaid over 5 years with monthly payments. Calculate the effective annual interest rate on the loan. (round to two decimal points)
- A) .75%
 - B) 9%
 - C) 10.8%
 - D) 9.38%
 - E) None of the above answers are correct
- 28) The _____ is the proper title given to the legal contract between the firm issuing the bond and the bond trustee who represents the bondholders.
- A) provisions
 - B) mortgage
 - C) prospectus
 - D) shareholder's agreement
 - E) indenture
- 29) Neal wants to judge the performance of prospective stock by using the dividend yield. He can calculate this by dividing the annual dividends by the
- A) growth of the stock.
 - B) market price of the stock.
 - C) change in stock price over the year.
 - D) book value of the stock per share.
 - E) price to earnings ratio.
- 30) Which of the following is not an example of speculative investing as outlined in the text?
- A) real estate
 - B) collectibles
 - C) precious stones
 - D) silver
 - E) gold

the stock price was getting too high for the small investor to buy the stock. The company will substitute more shares for the existing shares of stock without increasing the market value of the firm.

- A) stock repurchase
- B) stock splice
- C) stock dividend
- D) claim on income
- E) stock split

32) Calculate the yield-to-maturity of a \$1,000 bond that has an annual coupon rate of ten percent, pays interest semi-annually, has three years until maturity and a current market price of \$925.00. (round answers to two decimal points) (2 marks)

- A) 23.63%
- B) 6.55%
- C) 15.81%
- D) 13.10%
- E) None of the above answers are correct.

33) Judy invests in mutual funds. To either pay no commission or pay one when she liquidates her holdings, she would want a _____ or a _____.

- A) front-load fund, no-load fund
- B) no-load fund, back-load fund
- C) load fund, back-load fund
- D) front-load fund, load fund
- E) no-load fund, load fund

34) All of the following are examples of direct real estate investment except

- A) commercial property.
- B) apartment building.
- C) vacation home.
- D) REIT.
- E) undeveloped land.

35) As compared to growth stocks, income stocks pay _____ dividends with _____ growth in earnings.

- A) the same, high
- B) relatively low, high
- C) relatively high, small increase
- D) relatively high, high
- E) relatively high, better-than-average

- 36) Calculate the current market value of a \$1,000 par value Zero Coupon bond that will mature in 10 years if the bond is currently priced to yield 8%?
- A) \$ 536.81
 - B) \$ 463.19
 - C) \$1,000.00
 - D) There is not enough information provided to calculate an answer.
 - E) None of the above answers are correct.
- 37) Gates Software Corporation's common stock was selling for \$100 per share at the beginning of 2001 and \$105 at the end of the year. Dividends of \$8 were paid during 2001. What was the 2001 total rate of return per share?
- A) 22%
 - B) 8%
 - C) 5%
 - D) 13%
 - E) None of the above answers are correct
- 38) A couple buys a house worth \$156,000 by paying \$56,000 down and taking out a mortgage for the rest of the purchase price. The mortgage is at 12% compounded semi-annually and will be repaid over 25 years with monthly payments. Calculate the amount of interest paid within the first five years of mortgage payments. (2 marks)
- A) \$60,000.00
 - B) \$35,410.40
 - C) \$4,539.84
 - D) \$57,374.13
 - E) None of the above answers are correct
- 39) For your investment program, you have been occasionally holding a few stocks that you have purchased from various brokers. Based on this, which advantages of mutual funds would be appealing to you?
- A) professional management
 - B) avoidance of bad brokers
 - C) diversification
 - D) both A and C
 - E) A, B and C from above
- 40) A bond has a Financial post quote of 97.375. What does the bond currently sell for?
- A) \$973.75
 - B) \$1000.00
 - C) \$197.375
 - D) \$97.375
 - E) none of the above

- 41) Suppose you just purchased a corporate bond that at 95.375. It carries a 7% coupon rate and will mature in 5 years and is priced to yield 8.22%. What is the annual interest payment you receive?
- A) \$100.00
 - B) \$95.125
 - C) \$70.00
 - D) \$82.22
 - E) none of the above
- 42) Bonds enjoy all of the following advantages but one. Point it out.
- A) Bonds produce steady income.
 - B) They reduce risk through diversification.
 - C) Bonds may be called when interest rates drop.
 - D) They can be a safe investment if held to maturity.
 - E) When interest rates drop, bond prices rise.
- 43) ABC Company has issued a \$100 par value preferred stock that pays an annual dividend rate of 5%. Investors currently require a 8% percent rate of return on this stock. Calculate the current market price.
- A) \$62.50
 - B) \$160.00
 - C) \$1,250.00
 - D) There is not enough information provided to make the calculation.
 - E) None of the above answers are correct.
- 44) One item listed below is not required by law to be on a mutual fund prospectus. Can you spot it?
- A) any investment limitation the fund may have
 - B) the fund's goal and investment strategy
 - C) the fund management's structure
 - D) any tax considerations of importance to the investors
 - E) the fund's expected rate of return
- 45) A bond rating is really a measure of a bond's
- A) yield to maturity.
 - B) performance.
 - C) riskiness.
 - D) market value.
 - E) yield.

- 46) Calculate the coupon rate on a \$1,000 bond that has a current market value of \$1,103.00, pays interest annually, is selling at a yield-to-maturity of 8% and has three years until maturity. (round answers to two decimal points) (2 marks)
- A) 10%
 - B) 8%
 - C) 12%
 - D) 7.25%
 - E) None of the above answers are correct
- 47) A balanced mutual fund is just that, a balance of _____, _____, and _____.
- A) high income, high growth, high stability
 - B) some income, slow growth, little stability
 - C) steady income, moderate growth, moderate stability
 - D) steady income, high growth, high stability
 - E) high income, moderate growth, moderate stability
- 48) ABC Company has issued a \$100 par value preferred stock that pays an annual dividend of \$5. If the current market price of the stock is \$62.50, calculate the dividend yield to investors.
- A) 8%
 - B) 6.25%
 - C) 5%
 - D) Not enough information is provided to solve the problem
 - E) None of the above answers are correct
- 49) The following formula, $(\text{net income} - \text{preferred stock dividends}) / (\text{number of shares of common stock outstanding})$, allows us to calculate the _____.
- A) market-to-book ratio.
 - B) price-to-book ratio.
 - C) dividend yield.
 - D) earnings per share.
 - E) stock growth.
- 50) Marcel Gravits wants to invest in stocks so as to even out his luck by letting the highs and lows cancel each other out. He will accomplish this by purchasing a fixed _____ of stock at specified intervals, known as _____.
- A) industry grouping, price control
 - B) pricing, price averaging
 - C) dollar amount, dollar cost averaging
 - D) quantity, dollar cost averaging
 - E) valuation, group purchase

- 51) One item listed below is not required by law to be on an equity mutual fund prospectus. () you spot it?
- A) performance over the past 10 years or since the fund has been established -
 - B) the services provided to investors -
 - C) any expected changes in portfolio management
 - D) the redemption and investment process for buying and selling shares in the fund --
 - E) fund fees, expenses, and turnover ratio --
- 52) Peter is trying to take advantage of the bond valuation relationships. He has figured out that when you expect interest rates to go down, the best type of bond to buy would be _____.
- A) interest proof bonds
 - B) interest-indexed bonds
 - C) long-term bonds that aren't callable -
 - D) government bonds
 - E) short-term bonds
- 53) Karen and Daryl are thinking about a tropical vacation that will cost \$5,500. They do not have the money on hand and would like to save the money in two years. If the couple can earn an annual interest rate of 2.75%, compounded monthly, what is the deposit required at each month-end?
- A) \$235.79
 - B) \$2,746.85
 - C) \$222.68
 - D) \$164.83
 - E) \$223.19
- 54) Greg Jewell read about several companies that were performing well during the current recession. He contemplated investing in them because their stocks are _____.
- A) seasonal.
 - B) growth.
 - C) defensive.
 - D) speculative.
 - E) cyclical.
- 55) A television set worth \$800 may be purchased by paying \$50 down and the balance in monthly installments for 1 year. Find the size of the monthly installments if money is worth 3% compounded monthly. Please round your answer to the nearest cent.
- A) \$61.65
 - B) \$63.52
 - C) \$65.76
 - D) \$67.76
 - E) \$75.35