

Test 2 - Pink - Fall 08

- 1) Read the following two statements - decide if each statement is true or false - then choose the appropriate answer from (A) to (D) below.
1. Your average tax rate refers to the percentage of the last dollar earned that will go towards your taxes
 2. An asset that is sold for more than it was purchased is said to incur a capital gain.
- A) Only Statement 1 is correct
B) Only Statement 2 is correct
C) Both statements are correct
D) Both statements are false
- 2) Of the following, one or more can reduce your income tax obligation.
- A) earning an income from rent
 - B) deductions
 - C) tax credits
 - D) earning an income from a business
 - E) both B and C
- 3) Grace deposits \$600 into an investment fund each May 1st. starting in the year 2001 and continuing to the final deposit on May 1st. in the year 2010. If the fund has an average annual growth rate of 10% compounded annually, how much will be in her account on May 1st. 2017. Please round to the nearest cent. (2 marks)
- A) \$20,969.83
 - B) \$8,962.46
 - C) \$15,877.54
 - D) \$23,276.80
 - E) \$18,634.52
- 4) Which of the following orders an immediate buy or sell of securities at the best available price?
- A) Good-till-canceled order
 - B) Market order
 - C) Stop-loss order
 - D) Limit order
- 5) Read the following two statements - decide if each statement is true or false - then choose the appropriate answer from (A) to (D) below
1. A round lot is a group of 100 shares that are traded together.
 2. Short selling involves borrowing stock from your investment dealer, selling it, and replacing it for your investment dealer.
- A) Only Statement 1 is correct
B) Both statement 1 and 2 are false
C) Only Statement 2 is correct
D) Both statement 1 and 2 are correct
- 6) 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 amount of interest paid within the first loan payment. (2 marks)
- A) \$150
 - B) \$30
 - C) \$415.17
 - D) None of the above answers are correct

- 7) Which of the following is a source of tax-free income?
- A) property income
 - B) capital gain on the sale of your home
 - C) employment income
 - D) commission income
 - E) capital gain income
- 8) One of the following is not one of the basic sections on the T1 Federal tax return. Which is it?
- A) determining tax credits
 - B) determining total income
 - C) calculating taxable income
 - D) calculating net income
 - E) determining the amount of GST paid throughout the year
- 9) 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 8% 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) \$59,168.57
 - B) \$40,000.00
 - C) \$38,582.93
 - D) \$37,928.57
 - E) None of the above answers are correct
- 10) You believe that the stock of Moab Bikes will soon fall from its current price of \$25 per share. You short 1000 shares with your investment dealer who has a 50% margin requirement. The price falls to \$15 per share, but not before it pays a \$5 dividend. Your commissions and other charges totaled \$50. What was your total profit?
- A) \$5.00
 - B) \$2,450
 - C) \$4,950
 - D) \$2,500
 - E) none of the above
- 11) Alice learned that the difference between the real rate of return and the nominal or quoted rate of return is that the real rate of return is
- A) adjusted for inflation.
 - B) adjusted for risk.
 - C) not adjusted for inflation.
 - D) adjusted the change in interest rates.
 - E) not adjusted for the average inflation rate.
- 12) Read the following two statements - decide if each statement is true or false - then choose the appropriate answer from (A) to (D) below
1. Investors with cash accounts must pay in full for their security purchases within a month of the transaction
 2. The ask price is the price at which an individual is willing to buy a security
- A) Only Statement 2 is correct
 - B) Both statement 1 and 2 are correct
 - C) Only Statement 1 is correct
 - D) Both statement 1 and 2 are false

- 13) Cretia Robritti discovered that the purpose of asset allocation is to ensure that the investor is _____, generally with holdings in several different _____ of investments.
- A) protected, denominations
 - B) well diversified, classes
 - C) evenly distributed, classes
 - D) evenly distributed, amounts
 - E) well diversified, amounts
- 14) An example of a lending investment is
- A) stocks.
 - B) real estate.
 - C) government bonds.
 - D) preferred stocks.
- 15) Which of the following is not an organized exchange?
- A) Toronto Stock Exchange
 - B) The Over-the-Counter (OTC) Exchange
 - C) Canadian Venture Exchange
 - D) New York Stock Exchange
- 16) Read the following two statements - decide if each statement is true or false - then choose the appropriate answer from (A) to (D) below
1. A margin call specifies a minimum percentage margin of collateral that you must maintain.
 2. Securities registered in "street name" remain in the investment dealer's custody and appear in the investment dealer's computer as an entry in your name.
- A) Both statement 1 and 2 are false
 - B) Only Statement 2 is correct
 - C) Both statement 1 and 2 are correct
 - D) Only Statement 1 is correct
- 17) The inability to sell a security quickly at a fair market price is known as
- A) market risk
 - B) inflation risk
 - C) financial risk
 - D) liquidity risk
- 18) Since _____ are virtually risk-free, the interest rate on them is used as the real risk-free rate on the risk - return trade-off diagrams in the text.
- A) corporate bonds
 - B) short-lived stocks
 - C) 3 month T-Bills
 - D) savings accounts
 - E) government bonds
- 19) The difference between an investment and speculation is that an investment _____, while speculation depends on _____ to produce results.
- A) depends on supply and demand, economic conditions
 - B) generates a return, supply and demand
 - C) costs less, the economic conditions
 - D) depends on supply and demand, generating a return
 - E) costs less, generating a return
- 20) _____ order can be used to protect one's profits from one's trading.
- A) A good-till-cancelled
 - B) A limit
 - C) A market
 - D) A stop
 - E) An open

- 27) From the list below choose the item that is not a common deduction from total income.
- A) union dues
 - B) carrying charges and interest
 - C) pension income
 - D) childcare expenses
 - E) pension plan contributions
- 28) Anthony Hopkins wants to start investing and desires to consistently beat the market. What will you tell him?
- A) It can be done regularly by a skilled investor.
 - B) Efficient markets suggest that half the time you should underperform the market.
 - C) It is very tough to do so.
 - D) Efficient markets suggest that half the time you should outperform the market.
 - E) B, C, and D
- 29) Nancy wants to accumulate \$30,000 by the end of 15 years. She starts making monthly deposits at the beginning of each month in her investment account, which pays 10% compounded monthly. How much must she deposit monthly?
- A) \$72.38
 - B) \$1,870.33
 - C) \$319.72
 - D) \$166.67
 - E) \$71.78
- 30) The difference between an organized exchange and an over-the-counter market is that the transactions that occur in an organized exchange _____ and the over-the-counter transactions _____.
- A) are initial offerings, are conducted over the phone
 - B) take place in a physical building, are conducted over the phone or via a computer
 - C) are conducted over the phone or computer, take place in an exchange
 - D) are initial offerings, are seasoned issues
 - E) are seasoned issues, are initial offerings
- 31) What are some of the expenses you are able to use as a deduction from total income?
- A) childcare expenses
 - B) union dues
 - C) pension plan contributions
 - D) all of the above
 - E) none of the above
- 32) The deadline to file your income tax return is
- A) July 1.
 - B) April 15.
 - C) April 30.
 - D) March 30.
 - E) March 15.
- 33) Read the following two statements - decide if each statement is true or false - then choose the appropriate answer from (A) to (D) below
1. Upon maturity of a bond, investors receive back the face value of the bond plus a coupon payment.
 2. A dividend is a distribution made to a bondholder
- A) Both statement 1 and 2 are correct
 - B) Only Statement 1 is correct
 - C) Only Statement 2 is correct
 - D) Both statement 1 and 2 are false

- 34) Which of the following is (are) not one of the major organized exchanges in Canada?
- A) Canadian Venture Exchange
 - B) Toronto Stock Exchange
 - C) New York Stock Exchange
 - D) NASDAQ
 - E) both C and D
- 35) When interest rates go up investors demand _____ return on all other investments and when interest rates go down, the return investors demand on other investments _____.
- A) higher capital gains, goes up
 - B) an equal, goes up
 - C) an equal, goes down
 - D) a higher, goes up
 - E) a higher, goes down
- 36) Read the following two statements - decide if each statement is true or false - then choose the appropriate answer from (A) to (D) below
1. Nominal rates of return are more important than real rates of return when evaluating a bond investment
 2. Investors who purchase Canadian Federal Government Securities need not worry about default risk.
- A) Only Statement 1 is correct
 - B) Both statement 1 and 2 are false
 - C) Both statement 1 and 2 are correct
 - D) Only Statement 2 is correct
- 37) Acting upon assumed good advice, your brother buys stock in I-Link, an upcoming communications firm. Since this is the first time I-Link is trading its stock, your brother will be involved in
- A) an initial public offering.
 - B) a tombstone purchase.
 - C) a seasoned new issue.
 - D) a buy low transaction.
 - E) a secondary market transaction.
- 38) Read the following two statements - decide if each statement is true or false - then choose the appropriate answer from (A) to (D) below.
1. According to the textbook - CPP and EI are all income-based taxes.
 2. The Marginal tax rate is the percentage of the last dollar you earn that goes toward taxes.
- A) Only Statement 1 is correct
 - B) Only Statement 2 is correct
 - C) Both statements are correct
 - D) Both statements are false
- 39) You want to buy a new issue of stock in a dynamic electronics firm. You place an order that can't be completely filled the first day, so you ask for
- A) a day order.
 - B) an open order.
 - C) an extended order.
 - D) a market order.
 - E) a second chance.

- 40) An annuity pays 5 yearly payments of \$4,000 each, starting February 1, 2008. Find the discounted value of these payments on February 1, 2005, if money is worth 10% compounded yearly. Please round your answer to the nearest cent. (2 marks)
- A) \$12,531.53
 - B) \$15,163.15
 - C) \$9,286.53
 - D) \$11,392.30
 - E) None of the above answers are correct
- 41) 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 4%, compounded monthly, what is the deposit required at each month-end?
- A) \$238.84
 - B) \$164.83
 - C) \$220.50
 - D) \$2,745.42
 - E) none of the above answers are correct
- 42) 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 8% compounded semi-annually and will be repaid over 25 years with monthly payments. Calculate the monthly payment.
- A) \$1,190.61
 - B) \$771.82
 - C) \$763.21
 - D) \$758.24
 - E) None of the above answers are correct
- 43) Someone who was willing to sell 100 shares of stock for \$19.25 per share and buy 100 shares of stock for \$18.25 would post which of the following bid and ask prices on the OTC?
- A) Bid \$19.25; ask \$18.25
 - B) Bid \$18.25; ask \$19.25
 - C) Bid \$1,825; ask \$1,925
 - D) Bid \$1,925; ask \$1,825
- 44) Which of the following is the most obvious sign that an agency problem may exist?
- A) an investment dealer recommends that you use stop-loss orders
 - B) an investment dealer recommends that you open a discretionary account
 - C) an investment dealer recommends that you consider selling short
 - D) an investment dealer recommends a margin account
- 45) All of the following are true except
- A) a stop-loss order allows you to sell a stock almost automatically if the stock price falls.
 - B) a limit order specifies that a stock price must be at a certain level or better before execution.
 - C) a limit order allows you to sell a stock quickly if the stock's price falls.
 - D) a stop-loss order allows you to buy a stock almost automatically if the stock price rises.

- 46) 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 8% compounded semi-annually and will be repaid over 25 years with monthly payments. Calculate the total amount of interest paid over the life of the mortgage. (2 marks)
- A) \$200,000
 - B) \$131,545.01
 - C) \$128,964.32
 - D) \$8,000
 - E) None of the above answers are correct
- 47) You just purchased a vacant lot for your future home for \$50,000 and financed that amount over 96 months. What would your monthly payment be if your interest rate was 9.25% compounded monthly?
- A) \$739.01
 - B) \$567.23
 - C) \$10.92
 - D) \$353.60
 - E) \$1,544.55
- 48) Marginal tax rate...
- A) refers to the percentage of the last dollar earned that goes to taxes.
 - B) is the tax that only wealthy Canadians pay.
 - C) is the same as average tax rate.
 - D) is the total amount of taxes paid during the year.
- 49) Suppose that you had deposited \$100 in a bank account at the end of each year for each of the last 5 years. Calculate the rate of return reared if there is now (at the end of the 5th year) \$758.92 on deposit.
- A) 19%
 - B) 16%
 - C) 21%
 - D) 23%
 - E) 10%
- 50) Sly's Used Cars just sold you a clunker (you need it to get to class on time.) The contract states that the \$5,000 purchase price will be repaid with 24 monthly payments of \$250. What interest rate did they charge you? (assume monthly compounding)
- A) 1.51%
 - B) 18.16%
 - C) 5%
 - D) 24%
 - E) none of the above answers are correct
- 51) Historical rates of return place _____ at the high end and _____ at the lower end.
- A) long-term corporate bonds, T-Bills
 - B) common stocks, long-term corporate bonds
 - C) common stocks, long-term government bonds
 - D) long-term corporate bonds, long-term government bonds
 - E) common stocks, T-Bills
- 52) During the standard retirement years of 65 and older, _____ becomes important and allowing for some _____ in investments to fight inflation.
- A) income, growth
 - B) wealth accumulation, growth
 - C) wealth accumulation, spending
 - D) income, reduction
 - E) none of the above

- 53) That portion of a stock's risk or variability that can be eliminated through investor diversification is called _____ risk.
- A) supply and demand
 - B) unsystematic
 - C) systematic
 - D) inflation
 - E) unrealistic
- 54) You require \$10,000 of annual income for an indefinite period. Assuming a 10% annual return, what investment capital do you need?
- A) \$1,000
 - B) \$100,000
 - C) \$1,000,000
 - D) None of the above answers are correct
- 55) When you borrow money to pay for your investments you are
- A) increasing your purchasing power.
 - B) practicing leverage.
 - C) attempting something that can't be done.
 - D) starting a poor habit.
 - E) both A and B
- 56) Read the following two statements - decide if each statement is true or false - then choose the appropriate answer from (A) to (D) below.
1. The fact that there is a tax on the capital gains from buying and selling securities should encourage investors to "buy and hold" and avoid frequent trading.
 2. The profit from the buying and selling of your principal residence is exempt from the capital gains tax.
- A) Only Statement 1 is correct
 - B) Only Statement 2 is correct
 - C) Both statements are correct
 - D) Both statements are false
- 57) The agency problem refers to the fact that
- A) government agencies don't insure stock investments.
 - B) commissions may motivate the advice you receive.
 - C) it is more difficult to plan than to save.
 - D) default risk is systematic.