



Sample/practice exam 3 2016, questions

Analysis of Markets (Concordia University)

SOS TUTORING

Mock Exam

COMM 220 Analysis of Markets Mock Exam Winter 2015



GREAT TEST SCORES
Come From Great Test Prep



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WELCOME!

Before you begin this mock exam, please read the following instructions:

1. This is a simulated exam. The questions are based on our instructor's review of past exams, experience working with students, and assessment of those topics students have the most troubles with.
2. You have 48 hours to review and attempt the SOS Mock Exam at your own pace.
3. You are free to finish as little or as much as you would like. We recommend you attempt each question to the best of your ability.
4. On the day of the mock exam review, the instructor will work through the solutions for the group.

To make your stay with us as enjoyable as possible we please ask that you abide by the following policies:

1. Turn cell phones off or on vibrate.
2. Ensure your area is clean at the end of the day.

SOS POINTS!

Please remember to fill out the evaluation form found in the back of your package before leaving the exam and drop it off (face down) in the designated area!

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Multiple-Choice (60%)

1. If the cross price elasticity of demand of milk with respect to the price of cookies is -1.6 and the price of cookies is reduced by 15%, the consumption of milk will:
 - a) Increase by 24%
 - b) Decrease by 24%
 - c) Increase by 9.375%
 - d) Decrease by 9.375%
 - e) None of the above

2. If the price of apples was \$4 last year (base year) and \$4.75 this year, while the inflation rate was 15%, the real price of apples this year is:
 - a) \$4.13
 - b) \$4.55
 - c) \$4.70
 - d) \$4.85
 - e) \$4.96

3. Company X has a marginal product of labor= 5, and a marginal product of capital = 10. If company X wants to add one unit of labor but wants to keep its output the same, the firm should:
 - a) Increase capital by 0.5 units
 - b) Increase capital by 2 units
 - c) Decrease capital by 2 units
 - d) Decrease capital by 0.5 units
 - e) Decrease capital by 50 units

4. If current output is more than the profit maximizing output, then the next unit produced will:
 - a) Increase profit
 - b) Not change the profit level
 - c) Generate the same additional revenue as the additional cost
 - d) Increase revenue more than it increases costs
 - e) Increase costs more than it increases revenue

5. If the government intervenes in the market with an effective price floor producer surplus:
 - a) Will increase and consumer surplus will decrease
 - b) May decrease and consumer surplus will decrease
 - c) Will decrease and consumer surplus will increase
 - d) May increase and consumer surplus will increase
 - e) All of the above are possible

6. If the elasticity of Demand is -1.8. An increase in price would:
- Cause total revenue to rise
 - Cause total revenue to fall
 - Cause a higher quantity to be sold of that product
 - Cause total revenue to remain the same
 - Cause total revenue to fall only if the price goes up by more than 1.8%
7. If the supply curve is more elastic than demand then:
- Consumers have a lower tax burden than producers
 - Producers have a higher tax burden than consumers
 - Producers have a lower tax burden than consumers
 - Consumers have a higher tax burden than producers
 - A and B are correct
 - C and D are correct
8. Which of the following statements is correct:
- Since government bonds have a higher risk of default, they usually have higher interest rates than corporate bonds
 - Since government bonds are more liquid than corporate bonds, they usually have higher interest rates than corporate bonds
 - If two bonds have the same face value, the one that is taxable at 30% with a 9% coupon rate is preferred to a tax-exempt bond with a coupon rate of 7%
 - Since government bonds have a lower risk of default, they usually have lower interest rates than corporate bonds
 - If the interest on a government bond is 3%, the liquidity premium is 2% and the default risk premium is 0.5%, the interest on a corporate bond should be 4.5%
9. If the yield is curve is flat (horizontal) this means:
- Short term interest rates are expected to rise sharply in the future
 - Short term interest rates are expected to rise by a slight amount in the future
 - Short term interest rates are expected to fall sharply in the future
 - Short term interest rates are expected to fall by a slight amount in the future
 - Short term interest rates are expected to remain the same in the future

- 10.** A bank customer wants a one year loan, 3 years in the future. The current interest rate on one-through 4- year bonds is 3%, 4%, 5%, and 6% respectively. The liquidity premiums on one- through four-year bonds is 0%, 0.2%, 0.35%, 0.6% respectively. The bank has estimated that it need to add 1.3% to the expected interest rate to make a profit on the loan. What is the lowest interest rate the bank can charge the customer on the loan and still make a profit?
- 8.98%
 - 7.68%
 - 8.12%
 - 6.42%
 - 9.5%
- 11.** If the current price of an iPhone is \$500 in Canada and 40000 Yen in Japan, then according to the law of one price (Purchasing Power Parity), what is the exchange rate?
- 0.0125 Canadian dollar/Yen
 - 80 Canadian dollar/Yen
 - 80 Yen/Canadian dollar
 - 100Yen = 1 Canadian dollar
 - 0.0125 Yen/Canadian dollar
- 12.** If USA can make 400 shoes or 150 T-shirts in one month, while Argentina can make 500 shoes or 250 T-shirts in one month, then:
- USA has a comparative advantage in T-shirts
 - Argentina has a comparative advantage in T-shirts and absolute advantage in T-shirts
 - USA has an absolute advantage in Shoes
 - B and C are correct
 - None of the above
- 13.** Suppose the interest rate in Canada is currently 10% and the interest rate in France is 13%. If the current spot rate is 1.5 Euros= 1 \$CDN, what is the expected exchange rate one year from now according to the uncovered interest parity?
- \$1.545 Canadian = 1 Euro
 - \$1.6834 Canadian = 1 Euro
 - 1.545Euros = \$1 Canadian
 - 1.6834 Euros = \$1 Canadian
 - \$1.2456 Canadian = 1 Euros

- 14.** If the yield to maturity is greater than the coupon rate then:
- a) The current price of the bond is the same as the face value of the bond
 - b) The current price of the bond is greater than or equal to the face value of the same bond
 - c) The current price of the bond is less than the face value of the same bond
 - d) The current price of the bond is greater than the face value of the same bond
 - e) There is no relationship between the current price of the bond and the yield to maturity
- 15.** If you decide to buy a bond today at price of 900 with a coupon rate of 5% and a face value of \$1000. You sell the bond next year at a price of 800. What is your rate of return?
- a) 4.55%
 - b) -4.55%
 - c) 5.56%
 - d) -5.56%
 - e) 5%
- 16.** The present value of a bond that matures in 5 years can be best described as:
- a) The face value of the bond discounted 5 years back to the current period
 - b) All coupon payments that will be received over the next 5 years discounted back to the current period
 - c) The face value of the bond plus all future cash flows from coupons being received over the coming 5 years discounted back to the current period
 - d) The face value of the bond 5 years from the current period
 - e) The yield to maturity multiplied by the face value of the bond
- 17.** Given the fact that government bonds are widely traded and are more liquid than corporate bonds, which of the following is true:
- a) The supply of government bonds shifts to the right causing its equilibrium price to fall and interest rate to rise
 - b) The demand for corporate bonds shift to the right causing their equilibrium price to rise and interest rate to fall
 - c) The demand for government bonds shifts to the left causing its equilibrium price to fall and interest to rise
 - d) The demand for corporate bonds to shift left causing its equilibrium price to rise and interest rate to rise
 - e) The demand for government bonds to shift outward, causing its equilibrium price to rise and interest rate to fall

18. The supply of bonds is upward sloping because:

- a) As the price of the bond falls it is cheaper for businesses to buy bonds so they can supply more of them
- b) As the price of the bond rises, the cost of borrowing is lower for businesses so they are willing to sell a higher quantity of bonds to finance investment projects.
- c) As the price of the bond falls, the cost of borrowing is lower for businesses so they are willing to sell more bonds
- d) As people want to buy more bonds at lower prices, businesses will sell more bonds to satisfy the demand of buyers
- e) As the price of the bond rises, the cost of borrowing is higher for businesses so they are not willing to supply as high a quantity of bonds.

19. The context in which a choice is presented and how it affects a consumption decision is referred to as:

- a) Endowment Effect
- b) Anchoring
- c) Loss Aversion
- d) Lemons problem
- e) Framing

20. A person with increasing marginal utility of income is:

- a) Risk Averse
- b) Risk Neutral
- c) Risk Loving
- d) Has a utility curve that is increasing at a decreasing rate
- e) C and D are correct

21. A risk lover:

- a) Prefers variable incomes with lower standard deviations
- b) Prefers the utility of expected income of a risky gamble to the expected utility of income from the same risky gamble
- c) Prefers the expected utility of income from a risky gamble to the utility of expected income of the same gamble
- d) Has an upward sloping indifference curve
- e) Would choose gambles that have lower variance between the possible incomes

22. The term structure of interest rates is

- a) The relationship among interest rates of different bonds with the same maturity.
- b) The structure of how interest rates move over time.
- c) The relationship among the terms to maturity of different bonds.
- d) The relationship among interest rates on bonds with different maturities.

23. The risk structure of interest rates is

- a) The structure of how interest rates move over time.
- b) The relationship among interest rates of different bonds with the same maturity.
- c) The relationship among the terms to maturity of different bonds.
- d) The relationship among interest rates on bonds with different maturities.

24. Which of the following long-term bonds should have the highest interest rate?

- a) Corporate BBB bonds
- b) U.S. Treasury bonds
- c) Corporate AAA bonds
- d) Municipal bonds

25. The risk premium on corporate bonds becomes smaller if

- a) The riskiness of corporate bonds increases.
- b) The liquidity of corporate bonds increases.
- c) The liquidity of corporate bonds decreases.
- d) The riskiness of corporate bonds decreases.
- e) Either (B) or (D) occur.

26. (I) If a corporate bond becomes less liquid, the demand for the bond will fall, causing the interest rate to rise.

(II) If a corporate bond becomes less liquid, the demand for Treasury bonds does not change.

- a) (I) is true, (II) false.
- b) (I) is false, (II) true.
- c) Both are true.
- d) Both are false.

- 27.** According to the expectations theory of the term structure,
- When the yield curve is steeply upward-sloping, short-term interest rates are expected to rise in the future.
 - When the yield curve is downward-sloping, short-term interest rates are expected to decline in the future.
 - Buyers of bonds prefer short-term to long-term bonds.
 - All of the above
 - Only (A) and (B) of the above.
- 28.** According to the segmented markets theory of the term structure,
- The interest rate for bonds of one maturity is determined by supply and demand for bonds of that maturity.
 - Bonds of one maturity are not substitutes for bonds of other maturities; therefore, interest rates on bonds of different maturities do not move together over time.
 - Investors' strong preference for short-term relative to long-term bonds explains why yield curves typically slope downward.
 - Only (A) and (B) of the above.
- 29.** Of the four theories that explain how interest rates on bonds with different terms to maturity are related, the one that views long-term interest rates as equaling the average of future short-term rates expected to occur over the life of the bond is the
- Expectations hypothesis.
 - Preferred habitat theory.
 - Liquidity premium theory.
 - Segmented markets theory
- 30.** If leisure is a normal good then an increase in non-labor income will cause desired hours of work to
- Increase.
 - Decrease.
 - Stay the same.
 - Either decrease or increase.
- 31.** A person with _____ indifference curves is most likely to decide not to participate in the labor force.
- Flat
 - Steep
 - Straight
 - Upward-sloping

Question 3

- a) Suppose the current return on Canadian (domestic) bonds is 7% and the return on European bonds is 4%. If the current spot price of one Euro is 1.3 Canadian dollars what would be the future expected exchange rate according to the interest parity? Is the Canadian dollar expected to appreciate or depreciate?
- b) If the forward rate (or expected future exchange rate) is actually 1.32 Canadian dollars per Euro, what would be your arbitrage strategy? How much profit would be earned on a \$5000 investment?
- c) If the inflation rate in Europe is 8%, what would be your real interest from part B if you had invested in Europe?

Question 4

Suppose in Canada they can produce 600 Flags or 900 Toys and in USA they can produce 800 Flags or 1800 Toys. If the country that has a comparative advantage in Flags makes 50 more flags and the other country makes 50 less flags, what's the world gain in Toys?



Evaluation Form

Please rate the tutor on a scale of 10 to 1:

10 = completely agree, 9 = strongly agree, 8 = agree, 7 = somewhat agree, 6 = neutral, 5 = somewhat disagree, 4 = disagree, 3 = strongly disagree, 2 = completely disagree, N/A = not applicable

Date: _____

Professor: _____

This evaluation will help us improve our product so please be as straightforward as possible!!

MOCK Exam

Answer (10 to 1)

- 1. The Mock Exam teaching format was helpful to understand the material. _____
- 2. The Mock Exam covered all the course material. _____
- 3. The Mock Exam questions were challenging enough. _____
- 4. The solutions for the Mock Exam were complete. _____
- 5. I was satisfied with the overall performance of the tutor. _____
- 6. I enjoyed the mock exam format of tutoring. _____
- 7. I would consider using SOS Tutoring again. _____

Please evaluate the following question separate from actual course

Answer (A, B, C)

- 8. What is the ideal format to teaching a Mock Exam? _____
 - a. Students being given 20-30 minutes to solve a certain number of questions alone, followed by a tutor-lead review of the answers to those questions. This process is repeated until the completion of the entire questions in the Mock Exam.
 - b. Students being given 2 hours to solve all the questions in the Mock Exam, followed by a 3 hour tutor-lead review of the answers to those questions.
 - c. Students given the Mock Exam to solve at home before the class. During the class, tutor reviews the questions and solutions to the Mock Exam with the students for the full 3 hours.
 - d. Other formats? Please write here: _____

- 9. Is there anything you would like to see added, removed or modified with regards to the Mock Exam format? (Please leave as much detail as possible! It's really appreciated ☺)

We appreciate your business and hope you consider SOS Tutoring for all your tutoring needs!