Final Sample test

Student: ____

1. DeBondt and Thaler (1985) found that the poorest performing stocks in one time period experienced __________ performance in the following period and the best performing stocks in one time period experienced __________ performance in the following time period.

2. A worker plans to retire in 20 years. He needs $20,000 per year in retirement income in today's dollars. If inflation is forecast at 3.5% per year, what annual income should he plan to receive in the first year of retirement in order to maintain the purchasing power on $20,000?

3. Most professionally managed equity funds __________.

4. You purchase one IBM July 120 call contract for a premium of $5. You hold the option until the expiration date when IBM stock sells for $123 per share. You will realize a ______ on the investment.

5. Which of the following correctly provides the profit to a long position at contract maturity?

6. You are currently long in a futures contract. You then instruct a broker to enter the short side of a futures contract to close your position. This is called __________.

7. Asset A has an expected return of 20% and a standard deviation of 25%. The risk free rate is 10%. What is the reward-to-variability ratio?

8. Conventional finance theory assumes investors are _______ and behavioral finance assumes investors are _______

9. The market capitalization rate on the stock of Aberdeen Wholesale Company is 10%. Its expected ROE is 12% and its expected EPS is $5.00. If the firm's plow-back ratio is 40%, its P/E ratio will be __________.

10. You put up $50 at the beginning of the year for an investment. The value of the investment grows 4% and you earn a dividend of $3.50. Your HPR was

11. If the price of a $1,000 par Treasury bond is $1,023.75 the quote would be listed in the newspaper as _________.

12. A wheat farmer should __________ in order to reduce his exposure to risk associated with fluctuations in wheat prices.

13. The semi-strong form of the EMH states that ________ must be reflected in the current stock price.

14. If the Black-Scholes formula is solved to find the standard deviation consistent with the current market call premium, that standard deviation would be called the _______.

15. Active portfolio managers try to construct a risky portfolio with _______.

16. A put option on Snapple Beverage has an exercise price of $30. The current stock price of Snapple Beverage is $24.25. The put option is __________.

17. A farmer enters into a short corn futures contract at a price of $2.80 per bushel. The spot price of corn drops to $2.65 when the contract expires and the farmer delivers her corn. If the farmer harvested 13,000 bushels of corn and had futures contracts on 10,000 bushels of corn, what is the farmer's net proceeds when corn is sold?

18. An investment earns 10% the first year, 15% the second year and loses 12% the third year. Your total compound return over the three years was ________.

19. Attempting to forecast future earnings and dividends is consistent with which of the following approaches to securities analysis?

20. A convertible bond has a par value of $1,000 but its current market price is $950. The current price of the issuing company's stock is $19 and the conversion ratio is 40 shares. The bond's conversion premium is ___________.

21. A 45 call option on a stock priced at $50 is priced at $6.50. This call has an intrinsic value of _______ and a time value of ______.

22. In 2006 Hewlett Packard repurchased shares of common stock worth $5,241 million and made dividend payments of $894 million. Other financing activities raised $196 million and Hewlett-Packard's total cash flow from financing was
-$6,077 million. How much did the long term debt accounts of Hewlett Packard change?

23. A firm has current assets which could be sold for their book value of $10 million. The book value of its fixed assets is $60 million but they could be sold for $95 million today. The firm has total debt at a book value of $40 million but interest rate changes have increased the value of the debt to a current market value of $50 million. This firm's market to book ratio is __________.

24. The ___________ calculates the reward to risk trade-off by dividing the average portfolio excess return by the portfolio beta.

25. A portfolio generates an annual return of 17%, a beta of 1.2 and a standard deviation of 19%. The market index return is 12% and has a standard deviation of 16%. What is the Sharpe measure of the portfolio if the risk free rate is 4%?

26. You earn 6% on your corporate bond portfolio this year and you are in a 15% federal tax bracket and a 6% state tax bracket. Your after tax rate of return is _____. (Assume that federal taxes are not deductible against state taxes and vice versa).

27. The __________ is the stock price minus exercise price, or the profit that could be attained by immediate exercise of an in-the-money call option.

28. Firm A produces gadgets. The price of gadgets is $2 each. Firm A has total fixed costs of $1,000,000 and variable costs of $1.00 per gadget. The corporate tax rate is 40%. If the economy is strong, the firm will sell 2,000,000 gadgets. If the economy enters a recession it will sell only half as many gadgets. If the economy enters a recession, the after-tax profit of Firm A will be __________.

29. A coupon bond pays semi-annual interest is reported as having an ask price of 117% of its $1,000 par value in the Wall Street Journal. If the last interest payment was made 2 months ago and the coupon rate is 6%, the invoice price of the bond will be __________.

30. Assume that you have recently purchased 100 shares in an investment company. Upon examining the balance sheet, you note the firm is reporting $225 million in assets, $30 million in liabilities, and 10 million shares outstanding. What is the Net Asset Value (NAV) of these shares?

31. Bonds rated _____ or better by Standard and Poor's are considered investment grade.

32. A corporate bond has a 10 year maturity and pays interest semiannually. The quoted coupon rate is 6% and the bond is priced at par. The bond is callable in 3 years at 110% of par. What is the bond's yield to call?

33. If the currency of your country is depreciating, this should __________ exports and __________ imports.

34. A high amount of short interest is typically considered as a __________ and contrarians may consider it as a _________.

35. Which of the following industries would most analysts classify as mature?

36. Consider the CAPM. The expected return on the market is 18%. The expected return on a stock with a beta of 1.2 is 20%. What is the risk-free rate?

37. Beta is a measure of __________.

38. A firm has an ROE of 3%, a debt/equity ratio of 0.5, a tax rate of 40%, and the interest rate on its debt is 10%. Its operating ROA is __________.

39. You sold short 300 shares of common stock at $30 per share. The initial margin is 50%. You must put up __________.

40. Risk that can be eliminated through diversification is called ______ risk.