

MGT411-Money & Banking**MIDTERM EXAMINATION****Spring 2010****MGT411- Money & Banking (Session - 5)****Question No: 1 (Marks: 1) - Please choose one**

Given a choice between two investments with the same expected payoff:

- ▶ Most people will select the one with the highest variance
- ▶ Most people will opt for the one with the higher standard deviation
- ▶ Most people will be indifferent since the expected payoffs are the same
- ▶ Most people will choose the one with the lower standard deviation

Question No: 2 (Marks: 1) - Please choose one

For the valuation of goods and for quoting prices under the barter system the general formula which is used for n goods is _____.

- ▶ $n(n+1)/2$
- ▶ $n(n-1)*2$
- ▶ $n(n-1)/2$
- ▶ $(n-1)/2$

Question No: 3 (Marks: 1) - Please choose one

_____ are organized to eliminate the need of costly information gathering.

- ▶ Central banks

- ▶ Commercial banks
- ▶ Stock exchanges
- ▶ Insurance companies

Question No: 4 (Marks: 1) - Please choose one

Considering the value of a financial instrument, the longer the time until the promised payment is made:

- ▶ The less valuable is the promise to make it since time is valuable
- ▶ The greater the risk, therefore the promise has greater value
- ▶ The more valuable is the promise to make it
- ▶ It has no effect on the value of instrument

Question No: 5 (Marks: 1) - Please choose one

The real interest rate is:

- ▶ The nominal rate plus the expected inflation rate
- ▶ The nominal rate minus the expected inflation rate
- ▶ The nominal interest rate divided by the Consumer Price Index
- ▶ The product of the nominal rate and the Consumer Price Index

Question No: 6 (Marks: 1) - Please choose one

Which of the following is NOT a non depository institution?

- ▶ House Building Finance Corporation
- ▶ Zarai Tarkaytee Bank LTD
- ▶ United Bank LTD

- ▶ Khushali Bank

Question No: 7 (Marks: 1) - Please choose one

Financial intermediaries provide small lender-savers all of the following advantages **EXCEPT**:

- ▶ Greater liquidity
- ▶ Lower transaction cost
- ▶ Lower risk
- ▶ Higher return

Question No: 8 (Marks: 1) - Please choose one

What will be the Future Value (FV) of \$1000 in 5 years at 5% interest rate?

- ▶ \$1300.00
- ▶ \$1276.28
- ▶ \$1999.99
- ▶ \$1500.52

Question No: 9 (Marks: 1) - Please choose one

_____ If the factor time (n) is longer then:

- ▶ Present value will be lower
- ▶ Present value will be higher
- ▶ Interest rate will be lower
- ▶ Time has no effect on present value

Question No: 10 (Marks: 1) - Please choose one

_____ An investment carrying a current cost of \$130,000 is going to generate \$70,000 of revenue for each of the next three years. To calculate the internal rate of return we need to:

- ▶ Calculate the present value of each of the \$70,000 payments and multiply these and set this equal to \$130,000
- ▶ Take the present value of \$210,000 for three years from now and set this equal to \$130,000
- ▶ Set the sum of the present value of \$70,000 for each of the next three years equal to \$130,000
- ▶ Subtract \$130,000 from \$210,000 and set this difference equal to the interest rate

Question No: 11 (Marks: 1) - Please choose one

_____ Which of the following statement best describes to calculate the future value?

- ▶ Multiply the present value by the interest rate and add that amount of interest to the present value
- ▶ Divide the present value by the interest rate and add that amount of interest to the present value.
- ▶ Divide the present value by the interest rate and subtract that amount of interest to the present value.
- ▶ Multiply the present value by the interest rate and subtract that amount of interest to the present value.

Question No: 12 (Marks: 1) - Please choose one

_____ A credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called:

- ▶ Simple loan
- ▶ Fixed-payment loan
- ▶ Coupon bond
- ▶ Discount bond

Question No: 13 (Marks: 1) - Please choose one

When an individual obtains a student loan and makes all of the regular monthly payments, the sum of the payments made will exceed the initial amount of the loan. Which of the core principle primarily applies in this situation?

- ▶ Risk Requires Compensation
- ▶ Time has value
- ▶ Markets are sometimes inefficient at allocating resources
- ▶ Information is the basis for decisions

Question No: 14 (Marks: 1) - Please choose one

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

- ▶ Spreading the risk
- ▶ Standard deviation
- ▶ Hedging the risk
- ▶ Variance

Question No: 15 (Marks: 1) - Please choose one

Which of the following statement is **NOT** true for consols?

- ▶ Consol offers only periodic interest payments
- ▶ Borrower never repays the principal
- ▶ There are Government and as well as private consols
- ▶ Price of a consol is the present value of all the future interest payments

Question No: 16 (Marks: 1) - Please choose one

The _____ are an assessment of the creditworthiness of the corporate issuer.

- ▶ Bond yield
- ▶ **Bond ratings**
- ▶ Bond risk
- ▶ Bond price

Question No: 17 (Marks: 1) - Please choose one

_____ The price of a 6-month Treasury Bill is _____ the price of a 1-year Treasury Bill.

<http://vustudents.ning.com>

- ▶ Lower than
- ▶ **Higher than**
- ▶ Equal to
- ▶ None of the given options

Question No: 18 (Marks: 1) - Please choose one

For a \$1000 one year discount bond with a price of \$975, the yield to maturity is which of the following?

- ▶ $\$975/\1000
- ▶ **$(\$1000 - \$975)/\$975$**
- ▶ $(\$1000 - \$975)/(\$1000)$
- ▶ $\$1000/\975

Question No: 19 (Marks: 1) - Please choose one

_____ If
YTM is greater than the coupon rate the price of the bond is _____.

- ▶ Greater than its face value
- ▶ Lower than its face value
- ▶ Equals to its face value
- ▶ Insufficient information is given

Question No: 20 (Marks: 1) - Please choose one

_____ In
the long run, the yield curve tends to be which of the following?

- ▶ Upward sloping
- ▶ Downward sloping
- ▶ Nearly vertical
- ▶ Nearly horizontal

Question No: 21 (Marks: 1) - Please choose one

_____ Beside default risk which one if the following factor affects the return on bond?

- ▶ Taxes
- ▶ Monetary policy
- ▶ Junk bonds
- ▶ Debt

Question No: 22 (Marks: 1) <http://vustudents.ning.com> - Please choose one

_____ If
the tax rate is higher than gap between yield on taxable and tax exempt bond?

- ▶ Shorter
- ▶ Wider
- ▶ No gap
- ▶ Any thing can be possible

Question No: 23 (Marks: 1) - Please choose one

Which of the following statement is correct about the yield curve?

- ▶ Yield on short term bonds are not more volatile than yield on long term bond
- ▶ Long term yields tend to be higher than short term yield
- ▶ Interest rate of different maturities don't tend to move together
- ▶ None of the given options

Question No: 24 (Marks: 1) - Please choose one

_____ The concept of limited liability says a **stockholder** of a corporation:

- ▶ Is liable for the corporation's liabilities, but nothing more
- ▶ Cannot receive dividends that exceed their investment
- ▶ Cannot own more than five percent of any public corporation
- ▶ Cannot lose more than their investment

Question No: 25 (Marks: 1) - Please choose one

_____ Mr. David makes payment in the form of paper cheques to a merchant in exchange of some goods. Merchant deposits that cheque in his bank in order to receive payment. Which one of the following is **NOT** true for the above situation?

- ▶ Merchant's bank will debit merchant's account and credit Mr. David's account.

▶ Merchant's bank will just credit the merchant account and send cheque to central bank for further processing.

▶ Mr. David's bank will debit his account.

▶ Central bank will credit merchant's bank reserve account and debit Mr. David's Bank account.

Question No: 26 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

▶ Free-riding

▶ Moral hazard

▶ Adverse selection

▶ The Lemons market

Question No: 27 (Marks: 1) - Please choose one

Money once consisted of Gold and silver coins which were eventually replaced by which of the following?

▶ Plastic money

▶ Paper money

▶ Commodity money

▶ E-money

Question No: 28 (Marks: 1) - Please choose one

_____ If a bank has 2000 depositors, each of whom deposits \$500 in the bank, and the bank makes 100 loans of \$10,000 each:

▶ Each depositor has contributed \$100 to each loan

▶ Each depositor has contributed \$5 to each loan

► Each depositor has contributed \$50 to each loan

► Each depositor has contributed \$500 to each loan

Question No: 29 (Marks: 3)

“Stock market plays a crucial role in every modern capitalist economy”. Discuss.

Question No: 30 (Marks: 3)

Differentiate among the individual's categories of Risk Neutral, Risk Averse and Risk Lovers.

Question No: 31 (Marks: 5)

Discuss bubbles in your own word.

Question No: 32 (Marks: 5)

Equilibrium in the bond market is the point at which bonds supply equals bonds demand. Discuss bond supply and bond demand.

MIDTERM EXAMINATION

Spring 2010

MGT411- Money & Banking (Session - 2)

Marks: 44

Question No: 1 (Marks: 1) - Please choose one

Which of the following are used to transfer resources from savers to investors and to transfer risk to those who best equipped it?

- ▶ Financial markets
- ▶ Financial instruments
- ▶ Financial institutions
- ▶ Banks

Question No: 2 (Marks: 1) - Please choose one

_____ The reason for the government to get involved in the financial system is to:

- ▶ Protect investors
- ▶ Ensure the stability of the financial system
- ▶ Protect bank customers from monopolistic exploitation
- ▶ All of the given options

Question No: 3 (Marks: 1) - Please choose one

_____ A Financial Intermediary:

- ▶ Is an agency that guarantees a loan
- ▶ Is involved in direct finance
- ▶ Would be used in indirect finance
- ▶ None of the given options

Question No: 4 (Marks: 1) - Please choose one

_____ A derivative instrument:

- ▶ Gets its value and payoff from the performance of the underlying instrument
- ▶ Is a high risk financial instrument used by highly risk averse savers
- ▶ Comes into existence after the underlying instrument is in default
- ▶ Should be purchased prior to purchasing the underlying security

Question No: 5 (Marks: 1) - Please choose one

_____ The financial intermediary that obtains funds largely through premium payments and uses those funds to purchase corporate bonds and mortgages is:

- ▶ Credit unions
- ▶ Mutual funds
- ▶ Life insurance companies
- ▶ Pension funds

Question No: 6 (Marks: 1) - Please choose one

Which one of the following financial instrument is NOT primarily used as store of value?

- ▶ Banks loans
- ▶ Asset-backed securities
- ▶ Insurance contracts
- ▶ Stocks

Question No: 7 (Marks: 1) - Please choose one

Which one of the following represents the main purpose for which the secondary markets are made?

- ▶ Small investors who don't have an access to new securities

- ▶ Primary market is not enough for buying and selling of securities
- ▶ Large investors usually traded in these markets
- ▶ Prices in the secondary markets are known to investors

Question No: 8 (Marks: 1) - Please choose one

Which one of the following is NOT an example of Centralized exchange?

- ▶ New York Stock Exchange
- ▶ NASDAQ
- ▶ Large exchanges in London
- ▶ Large exchanges in Tokyo

Question No: 9 (Marks: 1) - Please choose one

What will be the effect on the present value if we double the future value of the payment?

- ▶ It will decrease the value by one-half
- ▶ It will increase the value by one-half
- ▶ It will equally increase the value i.e. doubles the value
- ▶ It will have no effect on the value

Question No: 10 (Marks: 1) - Please choose one

_____ The interest rate that is involved in _____ calculation is referred to as discount rate

- ▶ Present value
- ▶ Future value

- ▶ Intrinsic value
- ▶ Discount value

Question No: 11 (Marks: 1) - Please choose one

_____ A credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called:

- ▶ Simple loan
- ▶ Fixed-payment loan
- ▶ Coupon bond
- ▶ Discount bond

Question No: 12 (Marks: 1) - Please choose one

Mary is planning on taking out a mortgage loan for her new house. She is given the choice of two different banks: Bank A has quoted annual rate of 8% compounded semi-annually and Bank B has a quoted annual rate of 7.5% compounded for a certain number of times a year. Which bank should Mary choose?

- ▶ Bank A
- ▶ Bank B
- ▶ Indifferent between Bank A and Bank B
- ▶ Insufficient information

Question No: 13 (Marks: 1) - Please choose one

_____ For a \$1000 one year discount bond with a price of \$975, the yield to maturity is which of the following?

- ▶ \$975/\$1000

▶ $(\$1000 - \$975)/\$975$

▶ $(\$1000 - \$975)/(\$1000)$

▶ $\$1000/\975

Question No: 14 (Marks: 1) - Please choose one

_____ If
YTM equals the coupon rate the price of the bond is _____.

- ▶ Greater than its face value
- ▶ Lower than its face value
- ▶ Equals to its face value
- ▶ Insufficient information is given

Question No: 15 (Marks: 1) - Please choose one

_____ If
YTM is less than the coupon rate the price of the bond is _____.

- ▶ Greater than its face value
- ▶ Lower than its face value
- ▶ Equals to its face value
- ▶ Insufficient information is given

Question No: 16 (Marks: 1) - Please choose one

_____ Current yield is equal to which of the following?

- ▶ Price paid / yearly coupon payment
- ▶ Price paid *yearly coupon payment
- ▶ Yearly coupon payment / face value of bond

▶ Yearly coupon payment / price paid

Question No: 17 (Marks: 1) - Please choose one

_____ For a \$100 one-year zero-coupon bond, the supply will be _____ at \$95 than it will be at \$90, all other things being equal.

▶ Higher than before

▶ Lower than before

▶ Stable

▶ Insufficient information

Question No: 18 (Marks: 1) - Please choose one

_____ An increase in the expected inflation shifts the bond supply to the _____

▶ Right

▶ Left

▶ No change

▶ None of the given options

Question No: 19 (Marks: 1) - Please choose one

_____ The default premium:

▶ Is positive for a U.S. Treasury bond

▶ Must always be less than 0 (zero)

▶ Is also known as the risk spread

▶ Is assigned by a bond rating agency

Question No: 20 (Marks: 1) - Please choose one

Calculate tax implication on Bond yields. Consider a one year bond face value Rs.100 (issued by Government) with coupon rate of 6%.What is the income of bond that is received at maturity? (Tax rate is 30%).

- ▶ Rs.6
- ▶ Rs.1.80
- ▶ Rs.4.20
- ▶ Rs.7.80

Question No: 21 (Marks: 1) - Please choose one

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

- ▶ Because only interest income they receive from bond is taxable
- ▶ Because principal amount and interest income they receive from bond is taxable
- ▶ Because bond holders are taxpayers
- ▶ Because all bond is sold with a condition that tax will be deducted from its return

Question No: 22 (Marks: 1) - Please choose one

Expectation hypothesis focuses on which one of the following?

- ▶ Risk premium
- ▶ Risk free interest rate
- ▶ Yield to maturity
- ▶ None of the given options

Question No: 23 (Marks: 1) - Please choose one

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

- ▶ Short-term interest rates to rise sharply
- ▶ Short-term interest rates to stay near their current levels
- ▶ Short-term interest rates to drop sharply
- ▶ Short-term interest rates does not change

Question No: 24 (Marks: 1) - Please choose one

_____ The Theory of Efficient Markets:

- ▶ Allows for higher than average returns if the investor takes higher risk
- ▶ Says Insider-information makes markets less efficient
- ▶ Rules out high returns due to chance
- ▶ Assumes people have equal luck

Question No: 25 (Marks: 1) - Please choose one

_____ If information in a financial market is asymmetric, this means:

- ▶ Borrowers and lenders have the same information
- ▶ Lenders lack any information
- ▶ Borrowers and lenders have perfect information
- ▶ Borrowers would have more information than lenders

Question No: 26 (Marks: 1) - Please choose one

Often a bank will require a loan officer to make personal visits on customers with loans outstanding. This is encouraged because:

- ▶ The bank worries about competitors trying to steal their customers
- ▶ The bank wants to make sure the business is still there
- ▶ The bank likely has excess funds available and hopes to make another loan to the business
- ▶ This is an effective monitoring technique and should reduce moral hazard

Question No: 27 (Marks: 1) - Please choose one

Financial instruments are used to transfer which of the following?

- ▶ Both Risk and Resources
- ▶ Risk
- ▶ Resources
- ▶ Mortgages

Question No: 28 (Marks: 1) - Please choose one

Which of the following has created an opportunity for small investors to participate in economic activity?

- ▶ Mutual funds
- ▶ Small corporations
- ▶ Stock brokers
- ▶ Small investors cannot take part in economic activity

Question No: 29 (Marks: 3)

_____ Find
out YTM of 1 year 12% coupon bond selling at \$130. (Face value of bond = \$100).

Question No: 30 (Marks: 3)

_____ Why
stocks are risky?

Question No: 31 (Marks: 5)

_____ Discuss the negative consequences of information costs and also suggest their solution.

Question No: 32 (Marks: 5)

_____ Ahmad purchases a 10 year 8% coupon bond with the face value of \$100. He wants to hold this bond for 1-year and then sells a 9-year bond after 1-year.

(i) If interest rate does not change then what will be the rate of return?

(ii) If interest rate falls to 6% then suppose price increases to \$109.16. What will be the capital gain after the price rise?

(iii) After the price rise, what will be the one year holding period return?

MIDTERM EXAMINATION

Spring 2010

MGT411- Money & Banking (Session - 4)

Time: 60 min

Marks: 44

Question No: 1 (Marks: 1) - Please choose one

_____ Core
principles of Money and Banking include each of the following ***Except?***

- ▶ All people act rationally
- ▶ Time has value
- ▶ Information is the basis for decisions
- ▶ Risk requires compensation

ANS: All people act rationally

Question No: 2 (Marks: 1) - Please choose one

_____ Debit card works in the same way as which one of the following?

- ▶ Cheque
- ▶ Credit card
- ▶ Store value card
- ▶ Pay order

ANS: Cheque

Question No: 3 (Marks: 1) - Please choose one

_____ The
one that you get from bank when you open your checking account is _____.

- ▶ Debit card
- ▶ Credit card
- ▶ Store value card

- ▶ Customer card

<http://vustudents.ning.com>

ANS: Debit card

Question No: 4 (Marks: 1) - Please choose one

_____ The
Consumer Price Index (CPI):

- ▶ Tends to overstate inflation due to substitution bias
- ▶ Tends to understate actual inflation
- ▶ Is more accurate than the GDP deflator
- ▶ Is based on basket of goods that changes monthly with consumer expenditures

ANS: Is based on basket of goods that changes monthly with consumer expenditures

Question No: 5 (Marks: 1) - Please choose one

_____ The
process of financial intermediation:

- ▶ Creates a net cost to an economy but is unavoidable
- ▶ Is used primarily in underdeveloped countries
- ▶ Is always used when a borrower needs to obtain funds
- ▶ Increases the economy's ability to produce

ANS: Is always used when a borrower needs to obtain funds

Question No: 6 (Marks: 1) - Please choose one

_____ Which of the following is NOT a function of financial markets?

- ▶ Relaying and reacting information

▶ Used as a mean of payment

▶ Allocating resources

▶ Setting prices

ANS: Used as a mean of payment

Question No: 7 (Marks: 1) - Please choose one

Which of the following market allowed networks of dealers that are connected electronically?

▶ New York Stock Exchange

▶ NASDAQ

▶ Large exchanges in London

▶ Large exchanges in Tokyo

ANS: NASDAQ

Question No: 8 (Marks: 1) - Please choose one

Which of the following is the difference that lies between the options and futures?

▶ Options is not binding whereas future is binding

▶ Futures carry risks but Options didn't carry risk

▶ Centralized clearinghouses guarantee futures but not options contracts

▶ There is no difference between options and futures

ANS: Futures carry risks but Options didn't carry risk

Question No: 9 (Marks: 1) - Please choose one

_____ The future value of \$200 at a 5% per year interest rate at the end of one year is:

- ▶ \$195.00
- ▶ **\$210.00**
- ▶ \$197.50
- ▶ \$100

ANS: \$210.00

Question No: 10 (Marks: 1) - Please choose one

_____ is the today's value of a payment that is promised to be made in the future.

- ▶ None of the given options
- ▶ Future value
- ▶ **Present value**
- ▶ Agreed value

ANS: Present value

Question No: 11 (Marks: 1) - Please choose one

_____ You receive a check for \$500 three years from today. The discounted present value of this \$500 is _____.

- ▶ $\$500/(1+i)$
- ▶ $\$500*(1+i)$
- ▶ $\$500/(1+i)^3$

▶ $\$500 \cdot (1+i)^3$

ANS: $\$500 \cdot (1+i)^3$

Question No: 12 (Marks: 1) - Please choose one

Suppose there are two investments, A and B, investment A has low standard deviation where as investment B has high standard deviation. What would you think that most people will choose?

▶ Investment A

▶ Investment B

▶ Indifference between them

▶ Insufficient information to decide

ANS: Investment A

Question No: 13 (Marks: 1) - Please choose one

_____ The risk premium for an investment:

▶ Increases with risk

▶ Is a fixed amount added to the risk free return

▶ Is negative for U.S. Treasury Securities

▶ Is negative for risk averse investors

ANS: Increases with risk

Question No: 14 (Marks: 1) - Please choose one

_____ Mr. A has a Treasury bill with a maturity period of 6 months where as Mr. B has a bond with a maturity period of 1 year. Which of the following statement is **NOT** true for this situation?

- ▶ Mr. A has paid less price for his bond than Mr. B
- ▶ Mr. A and Mr. B is a holder of zero coupon bond
- ▶ Mr. A will receive payment at the end of the maturity period
- ▶ Mr. B will receive the payment at the end of the maturity period

ANS: Mr. A has paid less price for his bond than Mr. B

Question No: 15 (Marks: 1) - Please choose one

_____ Which of the following best describes the relationship between Bond prices and yields?

- ▶ Move together directly
- ▶ Independent of each other
- ▶ Move together inversely
- ▶ Bond yields do not change since the coupon is fixed

ANS: Move together inversely

Question No: 16 (Marks: 1) - Please choose one

_____ Treasury bonds & corporate bonds are the examples of _____ bonds.

- ▶ Zero-coupon bonds
- ▶ Coupon bonds
- ▶ Consols

- ▶ Fixed payment

ANS: Coupon bonds

Question No: 17 (Marks: 1) - Please choose one

The _____ are an assessment of the creditworthiness of the corporate issuer.

- ▶ Bond yield
- ▶ Bond ratings
- ▶ Bond risk
- ▶ Bond price

ANS: Bond ratings

Question No: 18 (Marks: 1) - Please choose one

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

- ▶ Because only interest income they receive from bond is taxable
- ▶ Because principal amount and interest income they receive from bond is taxable
- ▶ Because bond holders are taxpayers
- ▶ Because all bond is sold with a condition that tax will be deducted from its return

ANS: Because only interest income they receive from bond is taxable

Question No: 19 (Marks: 1) - Please choose one

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

▶ Higher the tax rate wider the gap between the yield of taxable and tax exempt bond

▶ Taxable bond yield is always greater than tax exempt bond

▶ Higher the tax rate shorter the gap between yield of taxable and tax exempt bond

▶ Lower the tax rate wider the gap between yield of taxable and tax exempt bond

ANS: Higher the tax rate wider the gap between the yield of taxable and tax exempt bond

Question No: 20 (Marks: 1) - Please choose one

_____ If
the tax rate is higher than gap between yield on taxable and tax exempt bond?

▶ Shorter

▶ Wider

▶ No gap

▶ Any thing can be possible

ANS: Wider

Question No: 21 (Marks: 1) - Please choose one

_____ Which one of the following is NOT true for the expectation hypothesis?

▶ Risk free interest rate can be computed

▶ There is uncertainty in the future

▶ Identifying yield of bond today that will be available next year

▶ It focuses on risk free interest rate and the risk premium

ANS: There is uncertainty in the future

Question No: 22 (Marks: 1) - Please choose one

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

- ▶ Short-term interest rates to rise sharply
- ▶ Short-term interest rates to stay near their current levels
- ▶ Short-term interest rates to drop sharply
- ▶ Short-term interest rates does not change

ANS: Short-term interest rates to stay near their current levels

Question No: 23 (Marks: 1) - Please choose one

Other things remaining equal, the liquidity premium theory is based upon the idea that _____.

- ▶ Investors prefer long-term bonds
- ▶ Investors prefer short-term bonds
- ▶ Investors are indifferent between short-term and long-term bonds
- ▶ Investors prefer intermediate-term bonds

ANS: Investors prefer short-term bonds

Question No: 24 (Marks: 1) - Please choose one

Common stocks (or corporate stocks):

- ▶ Are short term debt instruments

- ▶ Entitle the holder to contractual payments
- ▶ Were poor investments over the period 1982-1996
- ▶ Allows the holder to share in the earnings of the firm

ANS: Allows the holder to share in the earnings of the firm

Question No: 25 (Marks: 1) - Please choose one

Which of the following allows us to buy and sell financial instruments quickly and cheaply?

- ▶ Financial institution
- ▶ Financial market
- ▶ Central Bank
- ▶ Federal Reserve System

ANS: Financial market

Question No: 26 (Marks: 1) - Please choose one

Which of the following is *NOT* an example of financial institutions?

- ▶ Bank
- ▶ Securities firm
- ▶ Stock exchange
- ▶ Insurance company

Question No: 27 (Marks: 1) - Please choose one

Which of the following institution takes direct deposit from customer and gives loan to customer directly?

- ▶ Zarai Tarkaytee Bank LTD
- ▶ Soneri Bank
- ▶ Khushali Bank
- ▶ Credit union

ANS: Soneri Bank

Question No: 28 (Marks: 1) - Please choose one

_____ If there is a decrease in the expected future interest rate, what will be its affect on bond?

- ▶ Bond will be less attractive
- ▶ Bond will be more attractive
- ▶ Bond will be less expensive
- ▶ Bond will be more expensive

ANS: Bond will be more attractive

Question No: 29 (Marks: 3)

_____ Find out YTM of 1 year 7% coupon bond selling at \$90. (Face value of bond = \$100).

ANS:

$$YTM = \$100 / \$90 - 1 = 0.11 \text{ or } 11.11\%$$

Question No: 30 (Marks: 3)

“Stock market plays a crucial role in every modern capitalist economy”. Discuss.

Question No: 31 (Marks: 5)

“People differ in their opinions of how stocks should be valued”. Discuss it.

Question No: 32 (Marks: 5)

Briefly explain the factors which shift the bond demand.

ANS: The following factors those shift the bond demand are following

- 1- Wealth
- 2- Expected inflation
- 3- Expected return on stocks and other assets
- 4- Risk relative to alternatives
- 5- Liquidity of bonds relative to alternatives

Wealth : an increase in wealth shifts the demand for bond to the right as wealthier peoples invest more. This will happen as the economy grows during an expansion. This will increase bond prices and lower yields.

Expected inflation: a fall in expected inflation shifts the bond demand curve to the right, increasing demand at each price and lowering the yield and increasing the bonds price.

MIDTERM EXAMINATION

Spring 2010

MGT411- Money & Banking (Session - 6)

Time: 60 min

Marks: 44

Question No: 1 (Marks: 1) - Please choose one

Price of 100 goods under the barter system would be _____.

- ▶ 5050
- ▶ 19800
- ▶ 4950
- ▶ 20200

Question No: 2 (Marks: 1) - Please choose one

In electronic transfer the most common method is to send money through a system maintained by Federal reserve called _____.

- ▶ Fedex
- ▶ Fedwire
- ▶ Fedtransfer
- ▶ Fedmoney

Question No: 3 (Marks: 1) - Please choose one

Which one of the following is the primary cause of inflation?

- ▶ Decreased money supply
- ▶ Increased money supply

- ▶ Decreased interest rates
- ▶ Increased purchasing power

Question No: 4 (Marks: 1) - Please choose one

Which of the following is true for direct finance?

- ▶ Individuals (or firms) borrow directly from banks
- ▶ Individuals deposit savings directly in banks
- ▶ Firms deposit savings directly in banks
- ▶ Individuals (or firms) borrow directly from the savers

Question No: 5 (Marks: 1) - Please choose one

What will be the Future Value (FV) of \$1000 in 5 years at 5% interest rate?

- ▶ \$1300.00
- ▶ \$1276.28
- ▶ \$1999.99
- ▶ \$1500.52

Question No: 6 (Marks: 1) - Please choose one

Which one of the following is the procedure of finding out the Present Value (PV)?

- ▶ Discounting
- ▶ Compounding
- ▶ Time value of money
- ▶ Bond pricing

Question No: 7 (Marks: 1) - Please choose one

You receive a check for \$100 two years from today. The discounted present value of this \$100 is:

- ▶ $\$100/(1+i)$
- ▶ $\$100*(1+i)^2$
- ▶ $\$100*(1+i)$
- ▶ $\$100/(1+i)^2$

Question No: 8 (Marks: 1) - Please choose one

Which of the following represents the fisher's equation?

- ▶ Nominal interest rate = real interest rate + inflation
- ▶ Nominal interest rate + inflation = real interest rate
- ▶ Nominal interest rate = real interest rate - inflation
- ▶ Nominal interest rate = real interest rate / inflation

Question No: 9 (Marks: 1) - Please choose one

What will be the result of the difference of real and nominal interest rate?

- ▶ The cost of borrowing
- ▶ The effect of inflation
- ▶ The price of bonds
- ▶ The return of bonds

Question No: 10 (Marks: 1) - Please choose one

Sum of all the probabilities should be equal to which one of the following?

- ▶ Zero

▶ One

▶ Two

▶ Three

Question No: 11 (Marks: 1) - Please choose one

The coupon rate of bond:

▶ Is another term for the current yield

▶ Is another term for the yield to maturity

▶ Could not be calculated for a zero-coupon bond

▶ None of the given options

Question No: 12 (Marks: 1) - Please choose one

Current yield did NOT measure which of the following?

▶ Return arises from coupon payment

▶ Capital gain and loss

▶ Return arises from bond holding till maturity

▶ All of the given options

Question No: 13 (Marks: 1) - Please choose one

An increase in the expected inflation shifts the bond supply to the _____

▶ Right

▶ Left

▶ No change

▶ None of the given options

Question No: 14 (Marks: 1) - Please choose one

The lowest rating for an investment grade bond assigned by Moody's is:

- ▶ BBB
- ▶ ABB
- ▶ Baa
- ▶ Aaa

Question No: 15 (Marks: 1) - Please choose one

In the long run, the yield curve tends to be which of the following?

- ▶ Upward sloping
- ▶ Downward sloping
- ▶ Nearly vertical
- ▶ Nearly horizontal

Question No: 16 (Marks: 1) - Please choose one

Common stocks (or corporate stocks):

- ▶ Are short term debt instruments
- ▶ Entitle the holder to contractual payments
- ▶ Were poor investments over the period 1982-1996
- ▶ Allows the holder to share in the earnings of the firm

Question No: 17 (Marks: 1) - Please choose one

A bank can usually offer a saver a higher return for the same risk because:

- ▶ The bank can usually purchase assets at a higher cost than any one saver
- ▶ The bank can pool the resources of larger savers and purchase lower denominated assets

- ▶ Economies of scale can be applied by the bank in its purchase of assets
- ▶ None of the given options

Question No: 18 (Marks: 1) - Please choose one

If information in a financial market is asymmetric, this means:

- ▶ Borrowers and lenders have the same information
- ▶ Lenders lack any information
- ▶ Borrowers and lenders have perfect information
- ▶ Borrowers would have more information than lenders

Question No: 19 (Marks: 1) - Please choose one

Which of the following is true of a nation's central bank?

- ▶ It makes important decisions about the nation's tax and public spending policies
- ▶ It lends only to the nation's largest and most important business firms
- ▶ It has many interactions with the nation's citizens and businesses
- ▶ It is responsible for conducting the nation's monetary policy

Question No: 20 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

- ▶ Free-riding
- ▶ Moral hazard
- ▶ Adverse selection
- ▶ The Lemons market

Question No: 21 (Marks: 1) - Please choose one

Often a bank will require a loan officer to make personal visits on customers with loans outstanding. This is encouraged because:

- ▶ The bank worries about competitors trying to steal their customers
- ▶ The bank wants to make sure the business is still there
- ▶ The bank likely has excess funds available and hopes to make another loan to the business
- ▶ This is an effective monitoring technique and should reduce moral hazard

Question No: 22 (Marks: 1) - Please choose one

Which of the following represents the history of money uptill the modern age?

- ▶ Gold/silver coins____ Paper Currency____ Electronic Fund Transfer
- ▶ Paper Currency____ Gold/Silver coins____ Electronic Fund Transfer
- ▶ Electronic Fund Transfer____ Paper Currency ____ Gold/silver coins
- ▶ Gold/silver coins____ Electronic Fund Transfer____ Paper currency

Question No: 23 (Marks: 1) - Please choose one

Mr. A makes payment to Mr. B in exchange of household furniture in the form of cheques. Which of the following is true for this situation?

- ▶ It is final payment made by Mr. A
- ▶ It's not a final payment
- ▶ It may not be accepted as payment
- ▶ Cheques are not form of money

Question No: 24 (Marks: 1) - Please choose one

Components of M1 DO NOT include which one of the following?

- ▶ Currency in the hands of public
- ▶ Demand deposits
- ▶ Small denominations time deposit
- ▶ Checkable deposits

Question No: 25 (Marks: 1) - Please choose one

A change in the interest rate:

- ▶ Has a larger impact on the present value of a payment to be made far into the future than one to be made sooner
- ▶ Will not have a difference on the present value of two equal payments to be made at different times
- ▶ Has a smaller impact on the present value of a payment to be made far into the future than one to be made sooner
- ▶ None of the given options

Question No: 26 (Marks: 1) - Please choose one

Which of the following statement is true about the relationship between bond ,coupon payment and interest?

- ▶ Coupon payments fall, the interest rate falls, and Bond price will rise
- ▶ Coupon payments rise, the interest rate falls, and Bond price will rise
- ▶ Coupon payments fall, the interest rate falls, and Bond price will fall
- ▶ Coupon payments rise, the interest rate falls, and Bond price will fall

Question No: 27 (Marks: 1) - Please choose one

Which of the following are without maturity dates?

- ▶ Zero coupon bonds
- ▶ Coupon securities
- ▶ Consols
- ▶ Preferred Bonds

Question No: 28 (Marks: 1) - Please choose one

Zero-Coupon Bonds are pure discount bonds since they sell at a price _____.

- ▶ Equal their face value
- ▶ Below their face value
- ▶ Above their face value
- ▶ None of the given options

Question No: 29 (Marks: 3)

Differentiate between yield to maturity and current yield.

Yield To Maturity

The most useful measure of the return on holding a bond is called the yield to maturity (YTM).

This is the yield bondholders receive if they hold the bond to its maturity when the final principal payment is made

It can be calculated from the present value formula.

The value of i that solves this equation is the yield to maturity

If the price of the bond is \$100, then the yield to maturity equals the coupon rate.

Since the price rises as the yield falls, when the price is above \$100, the yield to maturity must be below the coupon rate.

Current yield

Current yield is a commonly used, easy-to-compute measure of the proceeds the bondholder receives for making a loan.

It is the yearly coupon payment divided by the price

The current yield measures that part of the return from buying the bond that arises solely from the coupon payments

Question No: 30 (Marks: 3)

Discuss briefly the facts about term Structure.

Facts of Term Structure

Interest Rates of different maturities tend to move together

Yields on short-term bond are more volatile than yields on long-term bonds

Long-term yields tend to be higher than short-term yields.

Question No: 31 (Marks: 5)

Briefly discuss short term ratings by Pakistan Credit Rating Agency.

Pakistan Credit Rating Agency.

A1+: highest capacity for timely repayment

A1: Strong capacity for timely repayment

A2: satisfactory capacity for timely repayment may be susceptible to adverse economic conditions

A3: an adequate capacity for timely repayment. More susceptible to adverse economic condition

B: timely repayment is susceptible to adverse changes in business, economic, or financial conditions

C: an inadequate capacity to ensure timely repayment

D: high risk of default or which are currently in default

Question No: 32 (Marks: 5)

Define stock and also discuss its important characteristics.

Stock & its importance

Stocks provide a key instrument for holding personal wealth as well as a way to diversify, spreading and reducing the risks that we face. For companies, they are one of several ways to obtain financing. Additionally, Stocks and stock markets are one of the central links between the financial world and the real economy.

Common Stock

Valuing Stock

Stocks, also known as common stock or equity, are shares in a firm's ownership

From their early days, stocks had two important characteristics that today are taken for granted:

The shares are issued in small denominations and the shares are transferable

Until recently, stockowners received a certificate from the issuing company, but now it is a computerized process where the shares are registered in the names of brokerage firms that hold them on the owner's behalf.

The ownership of common stock conveys a number of rights

A stockholder is entitled to participate in the shares of the enterprise, but this is a residual claim meaning the leftovers after all other creditors have been paid

MIDTERM EXAMINATION

Spring 2010

MGT411- Money & Banking (Session - 3)

Question No: 1 (Marks: 1) - Please choose one

Financial instruments are evolved just as _____.

▶ Currency

▶ Stock

▶ Bond

▶ Commodity

Question No: 2 (Marks: 1) - Please choose one

_____ Price
of 100 goods under the barter system would be _____.

- ▶ 5050
- ▶ 19800
- ▶ 4950
- ▶ 20200

Reference:

$$=n(n-1)/2$$

$$=100(100-1)/2$$

$$=100(99)/2$$

$$=9900/2$$

$$=4950$$

Question No: 3 (Marks: 1) - Please choose one

_____ Wealth can be held in number of other forms but we use to hold money because of which one of the following reason?

- ▶ It is the only mode of payment
- ▶ It is an asset
- ▶ It is most liquid
- ▶ It is the only store of value

Question No: 4 (Marks: 1) - Please choose one

_____ A
decrease in the number of credit cards issued:

▶ Has the same impact on the economy as the Federal Reserve supplying less money

▶ Reduces the money supply since credit cards act like money

▶ Would probably lower the amount in M3 but likely not M1

▶ None of the given options

Question No: 5 (Marks: 1) - Please choose one

_____ Risk sharing is the characteristic of which one of the following?

▶ Checks

▶ Checking accounts

▶ Money

▶ Bonds

Question No: 6 (Marks: 1) - Please choose one

_____ is the today's value of a payment that is promised to be made in the future.

▶ None of the given options

▶ Future value

▶ Present value

▶ Agreed value

Question No: 7 (Marks: 1) - Please choose one

Which one of the following is the procedure of finding out the Present Value (PV)?

▶ Discounting

▶ Compounding

▶ Time value of money

- ▶ Bond pricing

Question No: 8 (Marks: 1) - Please choose one

Asma deposits funds into a CD account at her bank. The CD account has an annual interest of 4.0%. If Asma leaves the funds in the CD account for entire two years she will have \$1081.60. What amount is Asma depositing?

- ▶ \$960.60
- ▶ \$900.00
- ▶ \$1005.00
- ▶ \$1000.00

Question No: 9 (Marks: 1) - Please choose one

_____ You receive a check for \$500 three years from today. The discounted present value of this \$500 is _____.

- ▶ $\$500/(1+i)$
- ▶ $\$500*(1+i)$
- ▶ $\$500/(1+i)^3$
- ▶ $\$500*(1+i)^3$

Question No: 10 (Marks: 1) - Please choose one

_____ What will be the effect on the present value if we double the future value of the payment?

- ▶ It will decrease the value by one-half
- ▶ It will increase the value by one-half
- ▶ It will equally increase the value i.e. doubles the value
- ▶ It will have no effect on the value

Question No: 11 (Marks: 1) - Please choose one

_____ The variance is generally less useful than the standard deviation on which of the following reasons?

- ▶ Variance is easier to calculate
- ▶ Variance is a measure of risk, whereas standard deviation is a measure of return
- ▶ Variance isn't calculated in the same units as payoffs where as standard deviation is
- ▶ Both are equally useful

Question No: 12 (Marks: 1) - Please choose one

_____ A risk-averse investor will:

- ▶ Always prefer an investment with a lower expected return
- ▶ Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty
- ▶ Always require a certain return
- ▶ Always focus exclusively on the expected return

Question No: 13 (Marks: 1) - Please choose one

_____ The return on the bond is equal to which of the following? <http://vustudents.ning.com>

- ▶ Coupon rate + rate of capital gains
- ▶ Current yield + rate of capital gains
- ▶ Coupon rate - rate of capital gains
- ▶ Current yield - rate of capital gains

Question No: 14 (Marks: 1) - Please choose one

_____ An increase in the expected inflation shifts the bond demand to the _____

- ▶ Right
- ▶ Left
- ▶ No change
- ▶ None of the given options

Question No: 15 (Marks: 1) - Please choose one

_____ The bond rating of a security refers to which of the followings?

- ▶ The size of the coupon payment relative to the face value
- ▶ The return a holder is likely to receive
- ▶ The likelihood the lender/borrower will be repaid by the borrower/issuer
- ▶ The years until the bond matures

Question No: 16 (Marks: 1) - Please choose one

_____ The _____ are an assessment of the creditworthiness of the corporate issuer.

- ▶ Bond yield
- ▶ Bond ratings
- ▶ Bond risk
- ▶ Bond price

Question No: 17 (Marks: 1) - Please choose one

_____ Which of the following statement is true for the given sentence, "that tax affects the bond return"?

- ▶ Because only interest income they receive from bond is taxable

- ▶ Because principal amount and interest income they receive from bond is taxable
- ▶ Because bond holders are taxpayers
- ▶ Because all bond is sold with a condition that tax will be deducted from its return

Question No: 18 (Marks: 1) - Please choose one

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

- ▶ Higher the tax rate wider the gap between the yield of taxable and tax exempt bond
- ▶ Taxable bond yield is always greater than tax exempt bond
- ▶ Higher the tax rate shorter the gap between yield of taxable and tax exempt bond
- ▶ Lower the tax rate wider the gap between yield of taxable and tax exempt bond

Question No: 19 (Marks: 1) - Please choose one

_____ If the tax rate is higher than gap between yield on taxable and tax exempt bond?

- ▶ Shorter
- ▶ Wider
- ▶ No gap
- ▶ Any thing can be possible

Question No: 20 (Marks: 1) - Please choose one

_____ The liquidity premium theory suggests that yield curves should usually be:

- ▶ Up-sloping
- ▶ Inverted
- ▶ Flat
- ▶ Up-sloping through year 1, then flat thereafter

Question No: 21 (Marks: 1) - Please choose one

_____ A
share of common stock represents _____.

- ▶ A claim from a lender to a borrower
- ▶ A share in the company's assets
- ▶ A share of ownership of the company
- ▶ An unlimited liability to the owner of the stock

Question No: 22 (Marks: 1) - Please choose one

_____ You
start with a \$1000 portfolio; it loses 40% over the next year, the following year it gains 50% in value; At
the end of two years the worth of your portfolio will be:

- ▶ \$900
- ▶ \$600
- ▶ \$1000
- ▶ \$1100

Question No: 23 (Marks: 1) - Please choose one

_____ If
information in a financial market is asymmetric, this means:

- ▶ Borrowers and lenders have the same information
- ▶ Lenders lack any information
- ▶ Borrowers and lenders have perfect information
- ▶ Borrowers would have more information than lenders

Question No: 24 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of financial institutions?

- ▶ Bank
- ▶ Securities firm
- ▶ Stock exchange
- ▶ Insurance company

Question No: 25 (Marks: 1) - Please choose one

Components of M_1 **DO NOT** include which one of the following?

- ▶ Currency in the hands of public
- ▶ Demand deposits
- ▶ Small denominations time deposit
- ▶ Checkable deposits

Question No: 26 (Marks: 1) - Please choose one

_____ Mr.
Ghazanfar obtains a home improvement loan from Allied Bank. This loan is:

- ▶ Mr. Ghazanfar's asset and the bank's liability
- ▶ Mr. Ghazanfar 's asset, but the liability belongs to the bank's depositors
- ▶ Mr. Ghazanfar 's liability and an asset for the bank
- ▶ Both Mr. Ghazanfar's and bank's liability

Question No: 27 (Marks: 1) - Please choose one

_____ The
interest rate used in the present value calculation is often referred as:

- ▶ Discount rate

- ▶ Inflation rate
- ▶ Nominal rate
- ▶ Deflation rate

Question No: 28 (Marks: 1) - Please choose one

_____ If
there is a decrease in the expected future interest rate, what will be its affect on bond?

- ▶ Bond will be less attractive
- ▶ Bond will be more attractive
- ▶ Bond will be less expensive
- ▶ Bond will be more expensive

Question No: 29 (Marks: 3)

_____ Find
out YTM of 1 year 10% coupon bond selling at \$120. (Face value of bond = \$100).

Question No: 30 (Marks: 3)

Discuss briefly the facts about term Structure.

Question No: 31 (Marks: 5)

_____ You
are the founder of an automobile company. Describe the idiosyncratic & systematic risks that your company faces.

Question No: 32 (Marks: 5)

Discuss bubbles in your own word.

Question No: 1 (Marks: 1) - Please choose one

Financial instruments are evolved just as _____.

▶ **Currency**

▶ Stock

▶ Bond

▶ Commodity

Question No: 2 (Marks: 1) - Please choose one

_____ Core principles of Money and Banking include each of the following Except?

▶ **All people act rationally**

▶ Time has value

▶ Information is the basis for decisions

▶ Risk requires compensation

Question No: 3 (Marks: 1) - Please choose one

Which of the following is a drawback of Fiat money?

▶ Fewer resources are used to produce money

▶ The quantity of money can be determined by rational human judgment

▶ **A corrupt Government might issue excessive amount of money thus causing inflation**

▶ Fiat money doesn't have any drawback

Question No: 4 (Marks: 1) - Please choose one

Which one of the following is **NOT** true for money?

- ▶ Money is an asset
- ▶ Money is a standard mode of payment
- ▶ **Money is same as wealth**
- ▶ Money is readily spend able asset

Question No: 5 (Marks: 1) - Please choose one

derivative instrument:

A

- ▶ **Gets its value and payoff from the performance of the underlying instrument**
- ▶ Is a high risk financial instrument used by highly risk averse savers
- ▶ Comes into existence after the underlying instrument is in default
- ▶ Should be purchased prior to purchasing the underlying security

Question No: 6 (Marks: 1) - Please choose one

Financial intermediaries provide small lender-savers all of the following advantages **EXCEPT**:

- ▶ **Greater liquidity**
- ▶ Lower transaction cost
- ▶ Lower risk
- ▶ Higher return

Question No: 7 (Marks: 1) - Please choose one

_____ The future value of \$100 left in a savings account earning 4.5% for two and a half years is best expressed by:

- ▶ $\$100(1.045)^{3/2}$
- ▶ $\$100(0.45)^{2.5}$
- ▶ **$\$100(1.045)^{2.5}$**
- ▶ $100 \times 2.5 \times (1.045)$

Question No: 8 (Marks: 1) - Please choose one

_____ is the today's value of a payment that is promised to be made in the future.

- ▶ None of the given options
- ▶ Future value
- ▶ **Present value**
- ▶ Agreed value

Question No: 9 (Marks: 1) - Please choose one

_____ You receive a check for \$500 three years from today. The discounted present value of this \$500 is _____.

- ▶ $\$500/(1+i)$
- ▶ $\$500*(1+i)$
- ▶ **$\$500/(1+i)^3$**
- ▶ $\$500*(1+i)^3$

Question No: 10 (Marks: 1) - Please choose one

_____ If the internal rate of return from an investment is less than the opportunity cost of funds:

- ▶ Firm should make the investment
- ▶ **Firm should not make the investment**

- ▶ Firm should only make the investment using retained earnings
- ▶ None of the given options

Question No: 11 (Marks: 1) - Please choose one

_____ An investment carrying a current cost of \$130,000 is going to generate \$70,000 of revenue for each of the next three years. To calculate the internal rate of return we need to:

- ▶ Calculate the present value of each of the \$70,000 payments and multiply these and set this equal to \$130,000
- ▶ Take the present value of \$210,000 for three years from now and set this equal to \$130,000
- ▶ **Set the sum of the present value of \$70,000 for each of the next three years equal to \$130,000**
- ▶ Subtract \$130,000 from \$210,000 and set this difference equal to the interest rate

Question No: 12 (Marks: 1) - Please choose one

_____ The real interest rate is:

- ▶ The nominal rate plus the expected inflation rate
- ▶ **The nominal rate minus the expected inflation rate**
- ▶ The nominal interest rate divided by the Consumer Price Index
- ▶ The product of the nominal rate and the Consumer Price Index

Question No: 13 (Marks: 1) - Please choose one

_____ What is true about the relationship between standard deviation and risk?

- ▶ **Greater the standard deviation greater will be the risk**
- ▶ Greater the standard deviation lower will be the risk
- ▶ Greater the standard deviation risk will be remained the same
- ▶ No relation between them

Question No: 14 (Marks: 1) - Please choose one

_____ Most of the people among us are _____.

- ▶ Risk lovers
- ▶ Risk enhancers
- ▶ **Risk averse**
- ▶ Risk tolerating

Question No: 15 (Marks: 1) - Please choose one

_____ Mr. A has a Treasury bill with a maturity period of 6 months where as Mr. B has a bond with a maturity period of 1 year. Which of the following statement is **NOT** true for this situation?

- ▶ Mr. A has paid less price for his bond than Mr. B
- ▶ **Mr. A and Mr. B is a holder of zero coupon bond**
- ▶ Mr. A will receive payment at the end of the maturity period
- ▶ Mr. B will receive the payment at the end of the maturity period

Question No: 16 (Marks: 1) - Please choose one

_____ For a \$1000 one year discount bond with a price of \$975, the yield to maturity is which of the following?

- ▶ $\$975/\1000
- ▶ **$(\$1000 - \$975)/\$975$**
- ▶ $(\$1000 - \$975)/(\$1000)$
- ▶ $\$1000/\975

Question No: 17 (Marks: 1) - Please choose one

Current yield is equal to which of the following?

- ▶ Price paid / yearly coupon payment
- ▶ Price paid *yearly coupon payment
- ▶ Yearly coupon payment / face value of bond
- ▶ **Yearly coupon payment / price paid**

Question No: 18 (Marks: 1) - Please choose one

_____ The return on the bond is equal to which of the following?

- ▶ Coupon rate + rate of capital gains
- ▶ **Current yield + rate of capital gains**
- ▶ Coupon rate - rate of capital gains
- ▶ Current yield - rate of capital gains

Question No: 19 (Marks: 1) - Please choose one

_____ An increase in the expected inflation shifts the bond demand to the _____

- ▶ Right
- ▶ **Left**
- ▶ No change
- ▶ None of the given options

Question No: 20 (Marks: 1) - Please choose one

Calculate tax implication on Bond yields. Consider a one year bond face value Rs.100 (issued by Government) with coupon rate of 6%.What is the income of bond that is received at maturity? (Tax rate is 30%).

▶ **Rs.6**

▶ Rs.1.80

▶ Rs.4.20

▶ Rs.7.80

Question No: 21 (Marks: 1) - Please choose one

_____ If the tax rate is higher than gap between yield on taxable and tax exempt bond?

▶ Shorter

▶ **Wider**

▶ No gap

▶ Any thing can be possible

Question No: 22 (Marks: 1) - Please choose one

_____ Expectation hypothesis focuses on which one of the following?

▶ Risk premium

▶ **Risk free interest rate**

▶ Yield to maturity

▶ None of the given options

Question No: 23 (Marks: 1) - Please choose one

_____ Stock market bubbles can lead to:

▶ An inefficient allocation of resources

▶ **Stock market crashes**

▶ Patterns of volatile returns from the stock market

- ▶ All of the given options

Question No: 24 (Marks: 1) - Please choose one

Without the ability of financial intermediaries to pool the resources of small savers:

- ▶ Borrowers needing large amounts of money would find it less costly to obtain the funds
- ▶ The economy would likely grow faster
- ▶ People would likely save more
- ▶ **The risk associated with lending would increase**

Question No: 25 (Marks: 1) - Please choose one

The fact that a financial intermediary can use the same contract for many customers is an example of:

- ▶ Economies of Scope
- ▶ The Law of Diminishing Marginal Returns
- ▶ The Law of Increasing Opportunity Cost
- ▶ **Economies of Scale**

Question No: 26 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

- ▶ Free-riding
- ▶ **Moral hazard**
- ▶ Adverse selection
- ▶ The Lemons market

Question No: 27 (Marks: 1) - Please choose one

Financial instruments are used to transfer which of the following?

▶ Both Risk and Resources

▶ Risk

▶ Resources

▶ Mortgages

Question No: 28 (Marks: 1) - Please choose one

_____ A
change in the interest rate:

▶ Has a larger impact on the present value of a payment to be made far into the future than one to be made sooner

▶ Will not have a difference on the present value of two equal payments to be made at different times

▶ Has a smaller impact on the present value of a payment to be made far into the future than one to be made sooner

▶ None of the given options

Question No: 29 (Marks: 3)

_____ Find
out YTM of 1 year 10% coupon bond selling at \$120. (Face value of bond = \$100).

Answer:

solution:

according to the formula

$$YTM = \text{yearly coupon payment} / \text{price paid}$$

So

$$\begin{aligned} & \$10/(1+i) - \$100/(1+i) = \\ & \$10\%/120 \\ & = 8.333 \end{aligned}$$

Question No: 30 (Marks: 3)

“Financial intermediary reduce costs”. How?

Financial intermediary is naturally an foundations that make easy the control of funds between lenders and borrowers not directly that acts as the middle man between investors and firms raising fund is called financial intermediary.

Financial intermediary will reduce transaction cost because they are specializing in the issuance of standardized securities.

Question No: 31 (Marks: 5)

Define financial intermediaries. What functions the financial intermediaries performs regarding savings?

Answer: Financial intermediary is naturally an foundations that make easy the control of funds between lenders and borrowers not directly that acts as the middle man between investors and firms raising fund is called financial intermediary.

Financial intermediary will reduce transaction cost because they are specializing in the issuance of standardized securities

- 1. Maturity transformation**

Converting short-term liabilities to long term assets just like banks deal with large number of lenders and borrowers, and settle their conflicting needs

- 2. Risk transformation**

Converting risky investments into relatively risk-free ones For example ending to multiple borrowers to spread the risk

- 3. Convenience**

Matching small deposits with large loans and large deposits with small loans

Question No: 32 (Marks: 5)

Briefly explain the factors which shift the bond demand.

Answer: Factors that shift Bond Demand

- **Expected inflation**

If **expected inflation fall** then demand for bond increases, curve of bond demand shift to right.

- **Expected return on bonds**

If the expected return on bonds rise then people will invest money more ,as result demand for bond will rise

- **Risk relative to alternatives**

If other stocks are more risky then demand for bonds increases then shift the demand curve bond

- **Liquidity of bonds**

If liquidity of bonds becomes more than other stocks or investments then shift the demand curve bond

- **Wealth**

As the consumer received more wealth their demands for good raise. They will invest their money in market result will be economy grows and bond prices will increase.

Question # 1

Wider the range of outcome wider will be the _____.

Select correct option:

Risk

Profit

Probability

Lose

Question # 2

The interest rate that is involved in _____ calculation is referred to as discount rate

Select correct option:

Present value

Future value

Intrinsic value

Discount value

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The return on holding a bond till its maturity is called:

Select correct option:

Coupon rate

Yield to maturity

Current yield

Internal rate of return

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following represents the fisher's equation?

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Nominal interest rate = real interest rate + inflation

Nominal interest rate + inflation = real interest rate

Nominal interest rate = real interest rate - inflation

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Bonds without maturity dates are which of the followings?

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Beside default risk which one if the following factor affects the return on bond?

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The return a holder is likely to receive

The likelihood the lender/borrower will be repaid by the borrower/issuer

The years until the bond matures

Question # 33

Yield curves show which of the followings?

Select correct option:

The relationship between bond interest rates (yields) and bond prices

The relationship between liquidity and bond interest rates (yields)

The relationship between risk and bond interest rates (yields)

The relationship between time to maturity and bond interest rates (yields)

Question # 34

Which of the following best expresses the proceeds a lender receives from a simple loan?

Select correct option:

$PV(1 + i)$

FV/i

$PV + i$

PV/i

Question # 35

When the price of a bond is above face value:

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The yield to maturity will be above the coupon rate

The yield to maturity is below the coupon rate

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Question # 36

What will the yield curve look like if future short-term interest rates are expected to rise sharply?

Select correct option:

It will steeply slope upward

It will be horizontal

It will slightly slope upward

It will slope downward

Question # 37

When a bond becomes more liquid relative to its alternatives, the demand curve for bonds shifts to the: <http://vustudents.ning.com>

Select correct option:

Right

Left

No change

None of the given options

Question # 38

Debt instruments is categorized on the basis of which one of the following?

Select correct option:

Loan maturity period

Interest rates

Mode of payment of interest

Amount of the debt taken

Question # 39

Expectation hypothesis focuses on which one of the following?

Select correct option:

Risk premium

Risk free interest rate

Yield to maturity

None of the given options

Reference:

Expectations Hypothesis

The risk-free interest rate can be computed, assuming that there is no uncertainty about the future

Question # 40

What characteristic of money is not included in securities characteristics

Select correct option:

Mean of payment

Unit of account

Store of value

Transfer of risk

Question # 41

Which one of the following is the narrowest definition of money?

Select correct option:

C

M1

M2

M3

Question # 42

Which one of the following is a component of wealth that is held in a readily spendable form?

Select correct option:

Money

Bonds

Stocks

Income

Question # 43

A loan that is used to purchase the real estate is known as:

Select correct option:

Real estate loan

Home mortgages

Fixed payment loan

Home loan

Question # 44

The default premium:

Select correct option:

Is positive for a U.S. Treasury bond

Must always be less than 0 (zero)

Is also known as the risk spread

Is assigned by a bond rating agency

Question # 45

A graph of the term structure with YTM on Y-axis and time to maturity on X-axis is called:

Select correct option:

Demand curve

Supply curve

Yield curve

Leffer curve

Question # 46

Which of the following best describes checks?

Select correct option:

A means of payment

Money

Not a promise of any kind

Not acceptable by the U.S. Government for payment of taxes.

Question # 47

With direct finance we mean which of the following?

Select correct option:

Individuals (or firms) borrow directly from the savers

Individuals (or firms) borrow directly from banks.

Individuals deposit savings directly in banks.

Firms deposit savings directly in banks.

Question # 48

Which of the following best expresses the payment a lender receives for lending their money for four years?

Select correct option:

$PV(1+i)^4$

$PV/(1+i)^4$

4PV

$PV/(1 - i)^4$

Question # 49

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

Select correct option:

Higher the tax rate wider the gap between the yield of taxable and tax exempt bond

Taxable bond yield is always greater than tax exempt bond

Higher the tax rate shorter the gap between yield of taxable and tax exempt bond

Lower the tax rate wider the gap between yield of taxable and tax exempt bond

Question # 50

In which of the following bonds we may ignore the default risk?

Select correct option:

Privately issued bonds

Government issued bonds

Bonds issued by Corporate

All of the given options

Question # 51

Which of the following is the least liquid of all?

Select correct option:

Money

Bonds & stocks

Lands & buildings

None of the given options

Question # 52

What is primary cause of inflation?

Select correct option:

Energy crises

Gold reserve shortage

Issue excessive currency

Rising cost of input

Question # 53

The risk premium for an investment:

Select correct option:

Increases with risk

Is a fixed amount added to the risk free return

Is negative for U.S. Treasury Securities

Is negative for risk averse investors

Reference:

Page 35

Question # 54

Which of the following is the measure of likelihood that an event will occur?

Select correct option:

Risk

Probability

Frequency

Outcom

Question # 55

Which of the following is NOT included in the definition of M1?

Select correct option:

Traveler's checks

Demand deposits

Currency

Gold coins issued by treasury

Question # 56

The liquidity premium theory suggests that yield curves should usually be:

Select correct option:

Up-sloping

Inverted
Flat
Up-sloping through year 1, then flat thereafter

Question # 57

If the tax rate is higher than gap between yield on taxable and tax exempt bond?

Select correct option:

Shorter
Wider
No gap
Any thing can be possible

Question # 58

The reason for the government to get involved in the financial system is to:

Select correct option:

Protect investors
Ensure the stability of the financial system
Protect bank customers from monopolistic exploitation
All of the given options

Reference:

Page92

Question # 59

Financial instruments are evolved just as _____.

Select correct option:

Currency
Stock
Bond
Commodity

Question # 60

The longer the time (n) until the payment:

Select correct option:

The lower the present value

The higher the present value because time is valuable

The lower must be the interest rate

Time has no effect on present value

Question # 61

Core principles of Money and Banking include each of the following except?

Select correct option:

People act rationally

Time has value

Information is the basis for decisions

Risk requires compensation

Question # 62

Which of the following would be included in a definition of risk?

Select correct option:

Risk is a not measure of uncertainty

Risk is unavoidable

Risk doesn't have a time horizon

Risk seldom involves some future payoff

Question # 63

The lowest rating for an investment grade bond assigned by Moody's is:

Select correct option:

BBB

ABB

Baa

Aaa

Question # 64

The concept of limited liability says a stockholder of a corporation:

Select correct option:

Is liable for the corporation's liabilities, but nothing more

Cannot receive dividends that exceed their investment

Cannot own more than five percent of any public corporation

Cannot lose more than their investment

Question # 65

Coupon bonds make the annual payments which are called as _____.

Select correct option:

Annual payments

Fixed payments

Coupon payments

Maturity payment

Question # 66

The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

Select correct option:

5.00%

6.25%

7.50%

8.00%

Question # 67

Home loans and car loans are the example of which one of the following?

Select correct option:

Mortgage loans

Pledge

Fixed Payment Loans

Ordinary loan

Question # 68

What is difference between warrant and check?

Select correct option:

Check is cleared from bank but warrant is not cleared by bank

Check is not necessarily payable on demand but warrant is payable on demand

Warrant is not necessarily payable on demand but check is payable on demand

None of above

Question # 69

The slope of the yield curve seems to predict the performance of the economy with:

Select correct option:

- Usually 3 months lag
- Usually two years lag
- Usually within few weeks
- Usually one year lag

Question # 70

What is true about the relationship between standard deviation and risk?

Select correct option:

- Greater the standard deviation greater will be the risk
- Greater the standard deviation lower will be the risk
- Greater the standard deviation risk remains the same
- No relation between them

Question # 71

If YTM equals the coupon rate the price of the bond is _____.

Select correct option:

- Greater than its face value
- Lower than its face value
- Equals to its face value
- Insufficient information

Question # 72

The Financial Systems makes it easier to trade because it:

Select correct option:

- Facilitate Payments
- Channels Funds from Savers to Borrowers
- Enables Risk Sharing
- All of the given options

Question # 73

Spreading involves:

Select correct option:

Finding assets whose returns are perfectly negatively correlated

Building a portfolio of assets whose returns move together

Investing in bonds and avoiding stocks during bad times

Adding assets to a portfolio that move independently

Question # 74

_____ is the interest rate at which the present value annual revenue equals the cost of the investment.

Select correct option:

Fixed rate of interest

Internal rate of return

Variable rate of interest

Nominal rate of interest

Question # 75

The GDP deflator is calculated as_____.

Select correct option:

$\text{Nominal GDP} / \text{Real GDP} * 100$

$\text{Real GDP} / \text{Nominal GDP}$

$\text{Nominal GDP} - \text{Real GDP}$

$\text{Real GDP} - \text{Nominal GDP}$

Question # 76

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

Select correct option:

Spreading the risk

Standard deviation

Hedging the risk

Variance

Question # 77

A _____ is a promise to make a series of payments on specific future date.

Select correct option:

Stock

Bond

Loan

Cheque

Question # 78

Which one of the following is true for financial intermediaries?

Select correct option:

Channel funds from savers to borrowers

Greatly enhance economic efficiency

Have been an source of many financial innovations

All of the given options

Question # 79

There is no guarantee that a bond issuer will make the promised payments is known as which one of the following?

Select correct option:

Default risk

Inflation risk

Interest rate risk

Systematic risk

Question # 80

If a bond sells at a premium, where price exceeds face value, then we would expect to see:

Select correct option:

Market interest rate the same as the coupon rate

Market interest rates above the coupon rate

Market interest rates below the coupon rate

All of the given options

Question # 81

One of major disadvantage of fiat money is

Select correct option:

Only few resources are needed

It may be theft easily

Normally it is obsolete quickly

Pressure or corrupt government may print excessive money

Question # 82

The price of a coupon bond can best be described as:

Select correct option:

The present value of the face value

The future value of the coupon payments and the face value

The present value of the coupon payments

Both The present value of the face value and of the coupon payments

Question # 83

The Segmented Markets Theory of term structure suggests that:

Select correct option:

Investors have strong preferences for bonds of a particular maturity

Investors have no preference for short-term bonds over long-term bonds, or vice versa
Interest rates on long-term bonds strongly influence the demand for short-term bonds
Bonds of different maturities are perfect substitutes for each other

Question # 84

Which of the following patterns of term structure occur most frequently?

Select correct option:

Ascending yield curve

Descending yield curve

Flat yield curve

Humped yield curve

Question # 85

Economic development measured by

Select correct option:

Real GDP/population

Real GDP/ nominal GDP

Real GDP/Real GNP

None of above

Reference:

Financial Development is measured by the commonly used ratio of broadly defined money to GDP. Economic development is measured by the real GDP per capita.

Question # 86

Sum of all the probabilities should be equal to which one of the following?

Select correct option:

Zero

One

Two

Three

Question # 87

A financial instrument in which a borrower obtains resources from a lender immediately in exchange for a promised set of payments in the future is called as _____.

Select correct option:

Bond

Bank Loan

Home Mortgage

Futures Contract

Question # 88

A brilliant example of risk require compensation

Select correct option:

Taking a safe debt

Insurance policy

A person work in office

None of above

Question # 89

An increase in wealth shifts the demand for bonds to the _____.

Select correct option:

Left

Right

No change

All of the given options

Question # 90

Internal Rate of Return is _____.

Select correct option:

Present value of investment

Future value of its investment +Cost of investment

Cost of investment

Present value of investment + cost of investment

Question # 91

Previously financial markets are located in which of the following?

Select correct option:

Coffee houses or Taverns

Stock exchanges

Bazaar

Coffee houses and Stock exchanges

Question # 92

At which money aggregate definitions relation is stronger with inflation and growth

Select correct option:

M1

M2

M3

None of above

Question # 93

The shape of the yield curve is usually:

Select correct option:

Upward sloping

Downward sloping

Upward sloping for shorter maturities and downward sloping for longer maturities

Flat

Question # 94

When the auto manufacturing industry does poorly due to a recession this is an example of:

Select correct option:

Idiosyncratic risk

Systematic risk

Risk premium

Unique risk

Question # 95

Mr A need 1000000 to buy a car for his personal use he contact with bank that give his loan this would be called

Select correct option:

Direct finance

Indirect finance

Facilitate payment

All of above

Question # 96

Which one of the following is NOT true for the expectation hypothesis?

Select correct option:

Risk free interest rate can be computed

There is uncertainty in the future

Identifying yield of bond today that will be available next year

It focuses on risk free interest rate and the risk premium

Question # 97

Mark borrows \$8,000 and then repays \$8,600 to ABC bank. What is the amount of interest in this payment?

Select correct option:

\$600

\$500

\$400

\$100

Question # 98

In the long run, the yield curve tends to be which of the following?

Select correct option:

Upward sloping

Downward sloping

Nearly vertical

Nearly horizontal

Question # 99

Which of the following is NOT a depository financial institution?

Select correct option:

Credit Union

Savings and Loan

Commercial bank

Life Insurance Company

Question # 100

Which of the following best describes the relationship between Bond prices and yields?

Select correct option:

Move together inversely

Bond yields do not change since the coupon is fixed

Move together directly
Are independent of each other

Question # 101

According to the rule of 72 for reasonable rates of return, the time it takes to _____ the money will be $t = 72/i\%$

Select correct option:

Doubles

Triples

halves

$\frac{3}{4}$

Question # 102

Which one of the following agencies assesses the default risk of different issuers?

Select correct option:

Insurance companies

Bond issuing

Credit rating

Recruitment agencies

Question # 103

The risk premium of a bond will:

Select correct option:

Higher for investment-grade bonds than for high-yield bonds

Positive but small if the risk of default is zero

Decrease when the default risk rises

Increase when the risk of default rises

Question # 104

The relationship between the price and the interest rate for a zero coupon bond is best described as:

Select correct option:

Volatile

Stable

Non-existent

Inverse

Question # 105

Which is broadly used as money aggregate?

Select correct option:

M1

M2

M3

None of above

Question # 106

Which characteristic are common both in money and securities

Select correct option:

Transfer of risk, store of value

Unit of account, mean of payment

Mean of payment, transfer of risk

Store of value, mean of payment

Question # 107

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

Select correct option:

Short-term interest rates to rise sharply

Short-term interest rates to stay near their current levels

Short-term interest rates to drop sharply

Short-term interest rates does not change

Question # 108

What is the true relationship that exists between default risk and yield?

Select correct option:

Higher the default risk, higher the yield

Lower the default risk, higher the yield

Higher the default risk yield will remain constant
Lower the default risk yield will remain constant

Question # 109

Which of the following financial instruments NOT used primarily as store of value?

Select correct option:

Options

Stocks

Home mortgage

Bonds

Question # 110

Which of the variable measured in point of time?

Select correct option:

Flow variable

Stock variable

Both flow variable and stock variable

None of above

Question # 111

A business cycle downturn shifts the bond supply to the:

Select correct option:

Right

Left

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$\$100*(1+i)^2$

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The size of the coupon payment relative to the face value

The return a holder is likely to receive

The likelihood the lender/borrower will be repaid by the borrower/issuer

The years until the bond matures

Question # 33

Yield curves show which of the followings?

Select Correct Option:

The relationship between bond interest rates (yields) and bond prices

The relationship between liquidity and bond interest rates (yields)

The relationship between risk and bond interest rates (yields)

The relationship between time to maturity and bond interest rates (yields)

Question # 34

Which of the following best expresses the proceeds a lender receives from a simple loan?

Select Correct Option:

$PV(1 + i)$

FV/i

$PV + i$

PV/i

Question # 35

When the price of a bond is above face value:

Select Correct Option:

The yield to maturity will be above the coupon rate

The yield to maturity is below the coupon rate

The yield to maturity will equal zero

The yield to maturity will equal the coupon rate

Question # 36

What will the yield curve look like if future short-term interest rates are expected to rise sharply?

Select Correct Option:

It will steeply slope upward

It will be horizontal

It will slightly slope upward

It will slope downward

Question # 37

When a bond becomes more liquid relative to its alternatives, the demand curve for bonds

shifts to the:

Select Correct Option:

Right

Left

No change

None of the given options

Question # 38

Debt instruments is categorized on the basis of which one of the following?

Select Correct Option:

Loan maturity period

Interest rates

Mode of payment of interest

Amount of the debt taken

Question # 39

Expectation hypothesis focuses on which one of the following?

Select Correct Option:

Risk premium

Risk free interest rate

Yield to maturity

None of the given options

Reference:

Expectations Hypothesis

The risk-free interest rate can be computed, assuming that there is no uncertainty about the future

Question # 40

What characteristic of money is not included in securities characteristics

Select Correct Option:

Mean of payment

Unit of account

Store of value

Transfer of risk

Question # 41

Which one of the following is the narrowest definition of money?

Select Correct Option:

C

M1

M2

M3

Question # 42

Which one of the following is a component of wealth that is held in a readily spendable form?

Select Correct Option:

Money

Bonds

Stocks

Income

Question # 43

A loan that is used to purchase the real estate is known as:

Select Correct Option:

Real estate loan

Home mortgages

Fixed payment loan

Home loan

Question # 44

The default premium:

Select Correct Option:

Is positive for a U.S. Treasury bond

Must always be less than 0 (zero)

Is also known as the risk spread

Is assigned by a bond rating agency

Question # 45

A graph of the term structure with YTM on Y-axis and time to maturity on X-axis is called:

Select Correct Option:

Demand curve

Supply curve

Yield curve

Leffer curve

Question # 46

Which of the following best describes checks?

Select Correct Option:

A means of payment

Money

Not a promise of any kind

Not acceptable by the U.S. Government for payment of taxes.

Question # 47

With direct finance we mean which of the following?

Select Correct Option:

Individuals (or firms) borrow directly from the savers

Individuals (or firms) borrow directly from banks.

Individuals deposit savings directly in banks.

Firms deposit savings directly in banks.

Question # 48

Which of the following best expresses the payment a lender receives for lending their money for four years?

Select Correct Option:

$PV(1+i)^4$

$PV/(1+i)^4$

$4PV$

$PV/(1-i)^4$

Question # 49

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

Select Correct Option:

Higher the tax rate wider the gap between the yield of taxable and tax exempt bond

Taxable bond yield is always greater than tax exempt bond

Higher the tax rate shorter the gap between yield of taxable and tax exempt bond

Lower the tax rate wider the gap between yield of taxable and tax exempt bond

Question # 50

In which of the following bonds we may ignore the default risk?

Select Correct Option:

Privately issued bonds

Government issued bonds

Bonds issued by Corporate

All of the given options

Question # 51

Which of the following is the least liquid of all?

Select Correct Option:

Money

Bonds & stocks

Lands & buildings

None of the given options

Question # 52

What is primary cause of inflation?

Select Correct Option:

Energy crises

Gold reserve shortage

Issue excessive currency

Rising cost of input

Question # 53

The risk premium for an investment:

Select Correct Option:

Increases with risk

Is a fixed amount added to the risk free return

Is negative for U.S. Treasury Securities

Is negative for risk averse investors

Reference:

Page 35

Question # 54

Which of the following is the measure of likelihood that an event will occur?

Select Correct Option:

Risk

Probability

Frequency

Outcom

Question # 55

Which of the following is NOT included in the definition of M1?

Select Correct Option:

Traveler's checks

Demand deposits

Currency

Gold coins issued by treasury

Question # 56

The liquidity premium theory suggests that yield curves should usually be:

Select Correct Option:

Up-sloping

Inverted

Flat

Up-sloping through year 1, then flat thereafter

Question # 57

If the tax rate is higher than gap between yield on taxable and tax exempt bond?

Select Correct Option:

Shorter

Wider

No gap

Any thing can be possible

Question # 58

The reason for the government to get involved in the financial system is to:

Select Correct Option:

Protect investors

Ensure the stability of the financial system

Protect bank customers from monopolistic exploitation

All of the given options

Reference:

Page92

Question # 59

Financial instruments are evolved just as _____.

Select Correct Option:

Currency

Stock

Bond

Commodity

Question # 60

The longer the time (n) until the payment:

Select Correct Option:

The lower the present value

The higher the present value because time is valuable

The lower must be the interest rate

Time has no effect on present value

Question # 61

Core principles of Money and Banking include each of the following except?

Select Correct Option:

People act rationally

Time has value

Information is the basis for decisions

Risk requires compensation

Question # 62

Which of the following would be included in a definition of risk?

Select Correct Option:

Risk is a not measure of uncertainty

Risk is unavoidable

Risk doesn't have a time horizon

Risk seldom involves some future payoff

Question # 63

The lowest rating for an investment grade bond assigned by Moody's is:

Select Correct Option:

BBB

ABB

Baa

Aaa

Question # 64

The concept of limited liability says a stockholder of a corporation:

Select Correct Option:

Is liable for the corporation's liabilities, but nothing more

Cannot receive dividends that exceed their investment

Cannot own more than five percent of any public corporation

Cannot lose more than their investment

Question # 65

Coupon bonds make the annual payments which are called as _____.

Select Correct Option:

Annual payments

Fixed payments

Coupon payments

Maturity payment

Question # 66

The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

Select Correct Option:

5.00%

6.25%

7.50%

8.00%

Question # 67

Home loans and car loans are the example of which one of the following?

Select Correct Option:

Mortgage loans

Pledge

Fixed Payment Loans

Ordinary loan

Question # 68

What is difference between warrant and check?

Select Correct Option:

Check is cleared from bank but warrant is not cleared by bank

Check is not necessarily pay able on demand but warrant is payable on demand

Warrant is not necessarily pay able on demand but check is payable on demand

None of above

Question # 69

The slope of the yield curve seems to predict the performance of the economy with:

Select Correct Option:

Usually 3 months lag

Usually two years lag

Usually within few weeks

Usually one year lag

Question # 70

What is true about the relationship between standard deviation and risk?

Select Correct Option:

Greater the standard deviation greater will be the risk

Greater the standard deviation lower will be the risk

Greater the standard deviation risk remains the same

No relation between them

Question # 71

If YTM equals the coupon rate the price of the bond is _____.

Select Correct Option:

Greater than its face value

Lower than its face value

Equals to its face value

Insufficient information

Question # 72

The Financial Systems makes it easier to trade because it:

Select Correct Option:

Facilitate Payments

Channels Funds from Savers to Borrowers

Enables Risk Sharing

All of the given options

Question # 73

Spreading involves:

Select Correct Option:

Finding assets whose returns are perfectly negatively correlated

Building a portfolio of assets whose returns move together

Investing in bonds and avoiding stocks during bad times

Adding assets to a portfolio that move independently

Question # 74

_____ is the interest rate at which the present value annual revenue equals the cost of

the investment.

Select Correct Option:

Fixed rate of interest

Internal rate of return

Variable rate of interest

Nominal rate of interest

Question # 75

The GDP deflator is calculated as_____.

Select Correct Option:

Nominal GDP/Real GDP *100

Real GDP/Nominal GDP

Nominal GDP – Real GDP

Real GDP – Nominal GDP

Question # 76

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

Select Correct Option:

Spreading the risk

Standard deviation

Hedging the risk

Variance

Question # 77

A _____ is a promise to make a series of payments on specific future date.

Select Correct Option:

Stock

Bond

Loan

Cheque

Question # 78

Which one of the following is true for financial intermediaries?

Select Correct Option:

Channel funds from savers to borrowers

Greatly enhance economic efficiency

Have been an source of many financial innovations

All of the given options

Question # 79

There is no guarantee that a bond issuer will make the promised payments is known as which one of the following?

Select Correct Option:

Default risk

Inflation risk

Interest rate risk

Systematic risk

Question # 80

If a bond sells at a premium, where price exceeds face value, then we would expect to see:

Select Correct Option:

Market interest rate the same as the coupon rate

Market interest rates above the coupon rate

Market interest rates below the coupon rate

All of the given options

Question # 81

One of major disadvantage of fiat money is

Select Correct Option:

Only few resources are needed

It may be theft easily

Normally it is obsolete quickly

Pressure or corrupt government may print excessive money

Question # 82

The price of a coupon bond can best be described as:

Select Correct Option:

The present value of the face value

The future value of the coupon payments and the face value

The present value of the coupon payments

Both The present value of the face value and of the coupon payments

Question # 83

The Segmented Markets Theory of term structure suggests that:

Select Correct Option:

Investors have strong p**References** for bonds of a particular maturity

Investors have no p**Reference** for short-term bonds over long-term bonds, or vice versa

Interest rates on long-term bonds strongly influence the demand for short-term bonds

Bonds of different maturities are perfect substitutes for each other

Question # 84

Which of the following patterns of term structure occur most frequently?

Select Correct Option:

Ascending yield curve

Descending yield curve

Flat yield curve

Humped yield curve

Question # 85

Economic development measured by

Select Correct Option:

Real GDP/population

Real GDP/ nominal GDP

Real GDP/Real GNP

None of above

Reference:

Financial Development is measured by the commonly used ratio of broadly defined money to GDP. Economic development is measured by the real GDP per capita.

Question # 86

Sum of all the probabilities should be equal to which one of the following?

Select Correct Option:

Zero

One

Two

Three

Question # 87

A financial instrument in which a borrower obtains resources from a lender immediately in exchange for a promised set of payments in the future is called as _____.

Select Correct Option:

Bond

Bank Loan

Home Mortgage

Futures Contract

Question # 88

A brilliant example of risk require compensation

Select Correct Option:

Taking a safe debt

Insurance policy

A person work in office

None of above

Question # 89

An increase in wealth shifts the demand for bonds to the _____.

Select Correct Option:

Left

Right

No change

All of the given options

Question # 90

Internal Rate of Return is _____.

Select Correct Option:

Present value of investment

Future value of its investment +Cost of investment

Cost of investment

Present value of investment + cost of investment

Question # 91

Previously financial markets are located in which of the following?

Select Correct Option:

Coffee houses or Taverns

Stock exchanges

Bazaar

Coffee houses and Stock exchanges

Question # 92

At which money aggregate definitions relation is stronger with inflation and growth

Select Correct Option:

M1

M2

M3

None of above

Question # 93

The shape of the yield curve is usually:

Select Correct Option:

Upward sloping

Downward sloping

Upward sloping for shorter maturities and downward sloping for longer maturities

Flat

Question # 94

When the auto manufacturing industry does poorly due to a recession this is an example

of:

Select Correct Option:

Idiosyncratic risk

Systematic risk

Risk premium

Unique risk

Question # 95

Mr A need 1000000 to buy a car for his personal use he contact with bank that give his loan this would be called

Select Correct Option:

Direct finance

Indirect finance

Facilitate payment

All of above

Question # 96

Which one of the following is NOT true for the expectation hypothesis?

Select Correct Option:

Risk free interest rate can be computed

There is uncertainty in the future

Identifying yield of bond today that will be available next year

It focuses on risk free interest rate and the risk premium

Question # 97

Mark borrows \$8,000 and then repays \$8,600 to ABC bank. What is the amount of interest in this payment?

Select Correct Option:

\$600

\$500

\$400

\$100

Question # 98

In the long run, the yield curve tends to be which of the following?

Select Correct Option:

Upward sloping

Downward sloping

Nearly vertical

Nearly horizontal

Question # 99

Which of the following is NOT a depository financial institution?

Select Correct Option:

Credit Union

Savings and Loan

Commercial bank

Life Insurance Company

Question # 100

Which of the following best describes the relationship between Bond prices and yields?

Select Correct Option:

Move together inversely

Bond yields do not change since the coupon is fixed

Move together directly

Are independent of each other

Question # 101

According to the rule of 72 for reasonable rates of return, the time it takes to _____

the money will be $t = 72/i\%$ <http://vustudents.ning.com>

Select Correct Option:

Doubles

Triples

halves

$\frac{3}{4}$

Question # 102

Which one of the following agencies assesses the default risk of different issuers?

Select Correct Option:

Insurance companies

Bond issuing

Credit rating

Recruitment agencies

Question # 103

The risk premium of a bond will:

Select Correct Option:

Higher for investment-grade bonds than for high-yield bonds

Positive but small if the risk of default is zero

Decrease when the default risk rises

Increase when the risk of default rises

Question # 104

The relationship between the price and the interest rate for a zero coupon bond is best described as:

Select Correct Option:

Volatile

Stable

Non-existent

Inverse

Question # 105

Which is broadly used as money aggregate?

Select Correct Option:

M1

M2

M3

None of above

Question # 106

Which characteristic are common both in money and securities

Select Correct Option:

Transfer of risk, store of value

Unit of account, mean of payment

Mean of payment, transfer of risk

Store of value, mean of payment

Question # 107

According to the liquidity premium theory of the term structure, when the yield curve has

its usual slope, the market expects

Select Correct Option:

Short-term interest rates to rise sharply

Short-term interest rates to stay near their current levels

Short-term interest rates to drop sharply

Short-term interest rates does not change

Question # 108

What is the true relationship that exists between default risk and yield?

Select Correct Option:

Higher the default risk, higher the yield

Lower the default risk, higher the yield

Higher the default risk yield will remain constant

Lower the default risk yield will remain constant

Question # 109

Which of the following financial instruments NOT used primarily as store of value?

Select Correct Option:

Options

Stocks

Home mortgage

Bonds

Question # 110

Which of the variable measured in point of time?

Select Correct Option:

Flow variable

Stock variable

Both flow variable and stock variable

None of above

Question # 111

A business cycle downturn shifts the bond supply to the:

Select Correct Option:

Right

Left

No change

None of the given options

MIDTERM EXAMINATION

Spring 2009

MGT411- Money & Banking

Question No: 1 (Marks: 1) - Please choose one

Which of the following are without maturity dates?

- ▶ Zero coupon bonds
- ▶ Coupon securities
- ▶ **Consols**
- ▶ Preferred Bonds

Question No: 2 (Marks: 1) - Please choose one

Which of the following institution takes direct deposit from customer and gives loan to customer directly?

- ▶ Zarai Tarkaytee Bank LTD
- ▶ Soneri Bank
- ▶ Khushali Bank
- ▶ **Credit union**

Question No: 3 (Marks: 1) - Please choose one

_____ Mr. Ghazanfar obtains a home improvement loan from Allied Bank. This loan is:

- ▶ Mr. Ghazanfar's asset and the bank's liability
- ▶ Mr. Ghazanfar 's asset, but the liability belongs to the bank's depositors
- ▶ **Mr. Ghazanfar 's liability and an asset for the bank**
- ▶ Both Mr. Ghazanfar's and bank's liability

Question No: 4 (Marks: 1) - Please choose one

Components of M_1 **DO NOT** include which one of the following?

- ▶ Currency in the hands of public
- ▶ Demand deposits
- ▶ **Small denominations time deposit**
- ▶ Checkable deposits

Question No: 5 (Marks: 1) - Please choose one

Which of the following has created an opportunity for small investors to participate in economic activity?

- ▶ **Mutual funds**
- ▶ Small corporations
- ▶ Stock brokers
- ▶ Small investors cannot take part in economic activity

Question No: 6 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of financial institutions?

- ▶ Bank
- ▶ Securities firm
- ▶ **Stock exchange**
- ▶ Insurance company

Question No: 7 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

- ▶ Free-riding
- ▶ **Moral hazard**
- ▶ Adverse selection
- ▶ The Lemons market

Question No: 8 (Marks: 1) - Please choose one

_____ In a financial market where information is symmetric:

- ▶ **The same information would be known by both parties in a transaction**
- ▶ One party to a transaction knows information the other party does not
- ▶ The ability to obtain information is available to only one party
- ▶ All of the given options

Question No: 9 (Marks: 1) - Please choose one

_____ When stock prices reflect fundamental values:

- ▶ All investors will experience capital gains
- ▶ All companies will have an easier task of obtaining financing for investment projects
- ▶ **The allocation of resources will be more efficient**
- ▶ The overall level of the stock market should move higher continuously

Question No: 10 (Marks: 1) - Please choose one

_____ An index number is a valuable tool because:

- ▶ The number by itself provides all of the useful information needed
- ▶ **The index provides a meaningful measurement scale to calculate percentage changes**
- ▶ The index is more stable than the data it reflects
- ▶ It does not require any calculations to compute percentage changes

Question No: 11 (Marks: 1) - Please choose one

_____ The concept of limited liability says **a stockholder** of a corporation:

- ▶ Is liable for the corporation's liabilities, but nothing more
- ▶ Cannot receive dividends that exceed their investment
- ▶ Cannot own more than five percent of any public corporation
- ▶ **Cannot lose more than their investment**

Question No: 12 (Marks: 1) - Please choose one

_____ Other things remaining equal, the liquidity premium theory is based upon the idea that _____.

- ▶ Investors prefer long-term bonds
- ▶ **Investors prefer short-term bonds**
- ▶ Investors are indifferent between short-term and long-term bonds
- ▶ Investors prefer intermediate-term bonds

Question No: 13 (Marks: 1) - Please choose one

Which one of the following is NOT true for the expectation hypothesis?

- ▶ Risk free interest rate can be computed
- ▶ There is uncertainty in the future
- ▶ Identifying yield of bond today that will be available next year
- ▶ **It focuses on risk free interest rate and the risk premium**

Question No: 14 (Marks: 1) - Please choose one

_____ A graph of the term structure with YTM on Y-axis and time to maturity on X-axis is called:

- ▶ Demand curve
- ▶ Supply curve
- ▶ **Yield curve**
- ▶ Leffer curve

Question No: 15 (Marks: 1) - Please choose one

	Bond A	Bond B
Maturity	5 years	10 years
Default risk	5%	5%
Tax rate	30%	30%
Yield	?	?

See the above table and choose the one option which is NOT correct about the yield of Bond A and Bond B?

▶ **Bond tax status and default rate are not the only factors that affect the yield of the two bonds**

- ▶ Bond A has different yield from that of Bond B because of change in maturity period
- ▶ Yields of both the bonds are not disturbed by maturity period
- ▶ Yield of Bond B depends on what people expect to happen in years to come

Question No: 16 (Marks: 1) - Please choose one

The _____ are an assessment of the creditworthiness of the corporate issuer.

- ▶ Bond yield
- ▶ **Bond ratings**
- ▶ Bond risk
- ▶ Bond price

Question No: 17 (Marks: 1) - Please choose one

_____ The bond rating of a security refers to which of the followings?

- ▶ The size of the coupon payment relative to the face value
- ▶ The return a holder is likely to receive
- ▶ **The likelihood the lender/borrower will be repaid by the borrower/issuer**
- ▶ The years until the bond matures

Question No: 18 (Marks: 1) - Please choose one

_____ An increase in the expected inflation shifts the bond demand to the _____

- ▶ **Right**
- ▶ Left

- ▶ No change
- ▶ None of the given options

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Question No: 19 (Marks: 1) - Please choose one

_____ The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

- ▶ **6.25%**
- ▶ 7.50%
- ▶ 8.00%
- ▶ 5.00%

Question No: 20 (Marks: 1) - Please choose one

_____ If the annual interest rate is 6% (.06); the price of a one year Treasury bill would be:

- ▶ \$94.00
- ▶ **\$94.33**
- ▶ \$95.25
- ▶ \$96.10

Question No: 21 (Marks: 1) - Please choose one

_____ The return on holding a bond till its maturity is called:

- ▶ Coupon rate
- ▶ **Yield to maturity**
- ▶ Current yield
- ▶ Fixed return

Question No: 22 (Marks: 1) - Please choose one

Which of the following best describes the relationship between Bond prices and yields?

- ▶ Move together directly
- ▶ Independent of each other
- ▶ **Move together inversely**
- ▶ Bond yields do not change since the coupon is fixed

Question No: 23 (Marks: 1) - Please choose one

_____ Mr. A has a Treasury bill with a maturity period of 6 months where as Mr. B has a bond with a maturity period of 1 year. Which of the following statement is **NOT** true for this situation?

- ▶ Mr. A has paid less price for his bond than Mr. B
- ▶ **Mr. A and Mr. B is a holder of zero coupon bond**
- ▶ Mr. A will receive payment at the end of the maturity period
- ▶ Mr. B will receive the payment at the end of the maturity period

Question No: 24 (Marks: 1) - Please choose one

What is true relationship between return and risk?

- ▶ Lower the risk greater the return
- ▶ **Greater the risk greater the return**
- ▶ Greater the risk no change in return
- ▶ No relationship between them

Question No: 25 (Marks: 1) - Please choose one

_____ Sum
of all the probabilities should be equal to which one of the following?

- ▶ Zero
- ▶ **One**
- ▶ Two
- ▶ Three

Question No: 26 (Marks: 1) - Please choose one

_____ measures the probability of worst outcome in any investment project.

- ▶ Variance
- ▶ Standard deviation
- ▶ **Value at risk**
- ▶ Hedging

Question No: 27 (Marks: 1) - Please choose one

_____ The
variance is generally less useful than the standard deviation on which of the following
reasons?

- ▶ Variance is easier to calculate
- ▶ Variance is a measure of risk, whereas standard deviation is a measure of return
- ▶ **Variance isn't calculated in the same units as payoffs where as standard deviation is**
- ▶ Both are equally useful

Question No: 28 (Marks: 1) - Please choose one

_____ A credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called:

- ▶ Simple loan
- ▶ Fixed-payment loan
- ▶ **Coupon bond**
- ▶ Discount bond

Question No: 29 (Marks: 1) - Please choose one

_____ Which of the following provides the greatest incentive to borrow?

- ▶ A high real interest rate
- ▶ **A low real interest rate**
- ▶ A high nominal interest rate
- ▶ A low nominal interest rate

Question No: 30 (Marks: 1) - Please choose one

_____ An investment carrying a current cost of \$130,000 is going to generate \$70,000 of revenue for each of the next three years. To calculate the internal rate of return we need to:

- ▶ Calculate the present value of each of the \$70,000 payments and multiply these and set this equal to \$130,000
- ▶ Take the present value of \$210,000 for three years from now and set this equal to \$130,000
- ▶ **Set the sum of the present value of \$70,000 for each of the next three years equal to \$130,000**
- ▶ Subtract \$130,000 from \$210,000 and set this difference equal to the interest rate

Question No: 31 (Marks: 1) - Please choose one

_____ A
borrower is promised a \$100 payment (including interest) one year from today. If the lender has an 8% opportunity cost of money, he should be willing to accept what amount today?

- ▶ Rs.100.00
- ▶ Rs.108.20
- ▶ **Rs.92.59**
- ▶ Rs.96.40

Question No: 32 (Marks: 1) - Please choose one

Which one of the following is **NOT** an example of Centralized exchange?

- ▶ New York Stock Exchange
- ▶ NASDAQ
- ▶ **Large exchanges in London**
- ▶ Large exchanges in Tokyo

Question No: 33 (Marks: 1) - Please choose one

Financial intermediaries provide small lender-savers all of the following advantages **EXCEPT:**

- ▶ **Greater liquidity**
- ▶ Lower transaction cost
- ▶ Lower risk
- ▶ Higher return

Question No: 34 (Marks: 1) - Please choose one

_____ The shares of McDonald Corporation stock are examples of:

- ▶ **A standardized financial instrument**
- ▶ A standardized financial liability instrument
- ▶ A non-standardized financial instrument
- ▶ A means of payment

Question No: 35 (Marks: 1) - Please choose one

_____ Which of the following statements is NOT correct?

- ▶ **Banks are financial intermediaries**
- ▶ Financial intermediary involves in giving loan and accepting deposit
- ▶ All financial intermediaries are insurance companies
- ▶ Financial intermediaries increase the efficiency of the economy

Question No: 36 (Marks: 1) - Please choose one

_____ Economic research shows:

- ▶ There is a strong inverse correlation between financial market development and economic growth
- ▶ There is weak relation between financial market development and economic growth around 0.25
- ▶ **There is a relatively strong positive correlation between financial market development and economic growth**
- ▶ There isn't any correlation between financial market development and economic growth

Question No: 37 (Marks: 1) - Please choose one

Which of the following statements is correct?

- ▶ If you can buy the same goods this year as you bought last year with less money the money supply decreased.
- ▶ **To purchase the same goods today that were purchased one year ago requires more money, there must have been inflation**
- ▶ To purchase the same goods today as one year ago requires less money, the money supply must have increased
- ▶ To purchase the same goods today that were purchased one year ago requires the same amount of money, there must have been inflation

Question No: 38 (Marks: 1) - Please choose one

_____ The one that you get from bank when you open your checking account is _____.

- ▶ **Debit card**
- ▶ Credit card
- ▶ Store value card
- ▶ Customer card

Question No: 39 (Marks: 1) - Please choose one

_____ Wealth can be held in number of other forms but we use to hold money because of which one of the following reason?

- ▶ It is the only mode of payment
- ▶ It is an asset
- ▶ **It is most liquid**
- ▶ It is the only store of value

Question No: 40 (Marks: 1) - Please choose one

Which of the following are used to monitor and stabilize the economy?

- ▶ Stock exchanges
- ▶ Commercial Banks
- ▶ **Central Banks**
- ▶ Financial institutions

Question No: 41 (Marks: 10)

“A financial instrument is a real or virtual document representing a legal agreement involving some sort of monetary value.” Discuss further on financial instruments by giving examples. Point out some of its uses and important characteristics.

ANSWER: Financial Instrument: Financial instrument is a written obligation of one party to transfer something of value to another party at a future date under certain conditions.

- By written obligation we mean that it is enforced by the government and this obligation is an important feature of a financial instrument.
- The party here can be an individual, company or a government
- Future date can be specified or when some event occurs.

Examples: Stocks, bonds, insurance etc are examples of financial instruments.

Characteristics of Financial Instruments: There are certain characteristics of financial instruments.

1. **Standardization:** It is a standardized agreement which enables reduction in costs of complexity. So because of this most financial instruments today are similar.
2. **Communicate Information:** Provide certain important information about the issuer which otherwise would have been difficult to gather for the lenders.

Value of Financial Instruments: The value of financial instruments depends on various factors.

- **Size:** Larger the promised payment more valuable is the financial instrument.
- **Timing:** The sooner the payment is made increases the value of financial instrument.
- **Risk:** A financial instrument is more valuable if there are greater possibilities that payment will be made.
- **Circumstances:** Payments made when needed the most makes the financial instrument more valuable.

Uses of Financial Instruments:

- **Store Of Value:**

Stocks: The stock holder is a part owner of the firm and receives part of its profits.

Bonds: A form of loan which promises to make repayment in future dates.

Bank loans: Borrowers obtains resources from lenders in exchange of promised payments.

- **Transfer of Risk:**

Insurance: Takes premium to assure payment under particular conditions (accident, death etc)

Future contracts: It is an agreement to exchange fixed quantity of a commodity or an asset at a fixed price. Transfer risk of price fluctuations.

Options: Gives holder the right to purchase fixed quantity of an underlying asset at predetermined price within a specific period.

Question # 1 of 15

Saving occurs normally in

Select correct option:

Early age

Middle age

Old age

None of above

Question # 2 of

What will be the result of the difference of real and nominal interest rate?

Select correct option:

The cost of borrowing

The effect of inflation

The price of bonds

The return of bonds

Question # 3 of 15

Sum of all the probabilities should be equal to which one of the following?

Select correct option:

Zero

One

Two

Three

Question # 4 of 15

Bonds that are issued by Government are called _____.

Select correct option:

Government bond

Treasury bond

Corporate bond

Callable Bonds

Question # 5 of 15

A _____ is a promise to make a series of payments on specific future date.

Select correct option:

Stock

Bond

Loan

Cheque

Question # 6 of 15

Which of the following is the measure of likelihood that an event will occur?

Select correct option:

Risk

Probability

Frequency

Outcom

Question # 7 of 15

Economic development measured by

Select correct option:

Real GDP/population

Real GDP/ nominal GDP

Real GDP/Real GNP

None of above

Question # 8 of 15

The reason for the government to get involved in the financial system is to:

Select correct option:

Protect investors

Ensure the stability of the financial system

Protect bank customers from monopolistic exploitation

All of the given options

Question # 9 of 15

The interest rate that is involved in _____ calculation is referred to as discount rate

Select correct option:

Present value

Future value

Intrinsic value

Discount value

Question # 10 of 15

The relationship between the price and the interest rate for a zero coupon bond is best described as:

Select correct option:

Volatile

Stable

Non-existent

Inverse

Question # 11 of 15

At which money aggregate definitions relation is stronger with inflation and growth

Select correct option:

M1

M2

M3

None of above

Question # 12 of 15 (Start time: 12:07:59 PM) Total Marks: 1

_____ is the interest rate at which the present value annual revenue equals the cost of the investment.

Select correct option:

Fixed rate of interest

Internal rate of return

Variable rate of interest

Nominal rate of interest

Question # 13 of 15

Which of the following is the least liquid of all?

Select correct option:

Money

Bonds & stocks

Lands & buildings

None of the given options

Question # 14 of 15

Time affects the value of which of the following?

Select correct option:

Financial Instruments

Financial Markets

Financial Institutions

Central Banks

Question # 15 of 15

The longer the time (n) until the payment:

Select correct option:

The lower the present value

The higher the present value because time is valuable

The lower must be the interest rate

Time has no effect on present value

2nd One

Question # 1 of 15

A brilliant example of risk require compensation

Select correct option:

Taking a safe debt

Insurance policy

A person work in office

None of above

Question # 2 of 15

Which of the following best describes the relationship between Bond prices and yields?

Select correct option:

Move together inversely

Bond yields do not change since the coupon is fixed

Move together directly

Are independent of each other

Question # 3 of 15

The relationship between the price and the interest rate for a zero coupon bond is best described as:

Select correct option:

Volatile

Stable

Non-existent

Inverse

Question # 4 of 15

Which of the following are used to monitor and stabilize the economy?

Select correct option:

Stock exchanges

Commercial Banks

Central Banks

Financial institutions

Question # 5 of 15

What is true relationship between return and risk?

Select correct option:

Lower the risk greater the return

Greater the risk greater the return

Greater the risk the return will remain constant

No relationship between them

Question # 6 of 15

Which of the following would be included in a definition of risk?

Select correct option:

Risk is a not measure of uncertainty

Risk is unavoidable

Risk doesn't have a time horizon

Risk seldom involves some future payoff

Question # 7 of 15

Which of the following best expresses the proceeds a lender receives from a simple loan?

Select correct option:

PV(1 + i)

FV/i

PV + i

PV/i

Question # 8 of 15

Financial development measured by

Select correct option:

M1/GDP

M2/GDP

M3/DGP

All of above

Question # 10 of 15

Financial instruments are evolved just as _____.

Select correct option:

Currency

Stock

Bond

Commodity

Question # 11 of 15

Which one of the following is true for financial intermediaries?

Select correct option:

Channel funds from savers to borrowers

Greatly enhance economic efficiency

Have been a source of many financial innovations

All of the given options

Question # 12 of 15

If YTM is less than the coupon rate the price of the bond is _____.

Select correct option:

Greater than its face value

Lower than its face value

Equals to its face value

All of the given options

Question # 14 of 15

With direct finance we mean which of the following?

Select correct option:

Individuals (or firms) borrow directly from the savers

Individuals (or firms) borrow directly from banks.

Individuals deposit savings directly in banks.

Firms deposit savings directly in banks.

Question # 15 of 15 (Start time: 12:30:33 PM) Total Marks: 1

Mr A need 1000000 to buy a car for his personal use he contact with bank that give his loan this would be called

Select correct option:

Direct finance

Indirect finance

Facilitate payment

All of above

MGT411 Solved MCQ

Question # 1 of 20

Bonds without maturity dates are which of the followings?

Select correct option:

Zero coupon bonds

Coupon securities

Consols

Preferred Bonds

Question # 4 of 20 (Start time: 08:02:08 PM)

Total Marks: 1

Which of the following represents the fisher's equation?

Select correct option:

Nominal interest rate = real interest rate + inflation

Nominal interest rate + inflation = real interest rate

Nominal interest rate = real interest rate - inflation

Nominal interest rate = real interest rate / inflation

Question # 5 of 20 (Start time: 08:03:08 PM)

Total Marks: 1

The return on holding a bond till its maturity is called:

Select correct option:

Coupon rate

Yield to maturity

Current yield

Internal rate of return

Question # 6 of 20 (Start time: 08:03:27 PM)

Total Marks: 1

Wider the range of outcome wider will be the _____.

Select correct option:

Risk

Profit

Probability

Lose

Question # 7 of 20 (Start time: 08:04:42 PM)

Total Marks: 1

The interest rate that is involved in _____ calculation is referred to as discount rate

Select correct option:

Present value

Future value

Intrinsic value

Discount value

Question # 8 of 20 (Start time: 08:06:05 PM)

Total Marks: 1

Bonds that are issued by Government are called _____.

Select correct option:

Government bond

Treasury bond

Corporate bond

Callable Bonds

Question # 13 of 20 (Start time: 08:13:26 PM)

Total Marks: 1

If a bond sells at a premium, where price exceeds face value, then we would expect to see:

Select correct option:

Market interest rate the same as the coupon rate

Market interest rates above the coupon rate

Market interest rates below the coupon rate

All of the given options

Question # 14 of 20 (Start time: 08:14:49 PM)

Total Marks: 1

With direct finance we mean which of the following?

Select correct option:

Individuals (or firms) borrow directly from the savers

Individuals (or firms) borrow directly from banks.

Individuals deposit savings directly in banks.

Firms deposit savings directly in banks.

Question # 15 of 20 (Start time: 08:16:14 PM)

Total Marks: 1

Investors will hold higher compensation for the _____ investment.

Select correct option:

More risky

Less risky

Fixed return

Less dividend

Question # 16 of 20 (Start time: 08:17:16 PM)

Total Marks: 1

Which of the following best expresses the proceeds a lender receives from a simple loan?

Select correct option:

PV(1 + i)

FV/i

PV + i

PV/i

Question # 17 of 20 (Start time: 08:18:11 PM)

Total Marks: 1

A financial instrument in which a borrower obtains resources from a lender immediately in exchange for a promised set of payments in the future is called as _____.

Select correct option:

Bond

Bank Loan

Home Mortgage

Futures Contract

Question # 18 of 20 (Start time: 08:19:18 PM)

Total Marks: 1

According to the rule of 72 for reasonable rates of return, the time it takes to _____ the money will be $t = 72/i\%$

Select correct option:

Doubles

Triples

halves

3/4

Question # 19 of 20 (Start time: 08:19:37 PM)

Total Marks: 1

The return on the bond is equal to which of the following?

Select correct option:

Coupon rate + rate of capital gains

Current yield + rate of capital gains

Coupon rate - rate of capital gains

Current yield - rate of capital gains

Question # 20 of 20 (Start time: 08:21:06 PM)

Total Marks: 1

A loan that is used to purchase the real estate is known as:

Select correct option:

Real estate loan

Home mortgages

Fixed payment loan

Home loan

Question # 2 of 20

When a bond becomes more liquid relative to its alternatives, the demand curve for bonds shifts to the:

Select correct option:

Right

Left

No change

None of the given options

Question # 4 of 20

Consumer Price Index (CPI) measures the:

Select correct option:

Changes in the quantity

Changes in the prices

Changes in the cost

Changes in the profit

Question # 5 of 20

A risk-averse investor will:

Select correct option:

Always prefer an investment with a lower expected return

Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty

Always require a certain return

Always focus exclusively on the expected return

Question # 9 of 20

Total Marks: 1

Which of the following best represent the true relationships between interest rates and bond prices?

Select correct option:

Move in the same direction

Move in opposite direction

Sometimes move in the same direction, some times in opposite direction

Have no relationship with each other (i.e. they are independent)

Question # 10 of 20

Total Marks: 1

Which one of the following is a component of wealth that is held in a readily spendable form?

Select correct option:

Money

Bonds

Stocks

Income

Question # 11 of 20

Total Marks: 1

The return on the bond is equal to which of the following?

Select correct option:

Coupon rate + rate of capital gains

Current yield + rate of capital gains

Coupon rate - rate of capital gains

Current yield - rate of capital gains

Question # 13 of 20 (Start time: 08:41:14 PM)

Time affects the value of which of the following?

Select correct option:

Financial Instruments

Financial Markets

Financial Institutions

Central Banks

Question # 14 of 20

Total Marks: 1

Which of the following statement is true about the relation ship between bond ,coupon payment and interest?

Select correct option:

Coupon payments fall, the interest rate falls, and Bond price will rise

Coupon payments rises, the interest rate falls, and Bond price will rise

Coupon payments fall, the interest rate falls, and Bond price will fall

Coupon payments rise, the interest rate falls, and Bond price will fall

Question # 15 of 20

Total Marks: 1

The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

Select correct option:

5.00%

6.25%

7.50%

8.00%

solution = coupon payment/price (so coupon payment 5%of 10,000 = 500)

= $500/8000 = .0625 * 100 = 6.25\%$

Question # 19 of 20

Total Marks: 1

There is no guarantee that a bond issuer will make the promised payments is known as which one of the following?

Select correct option:

Default risk

Inflation risk

Interest rate risk

Systematic risk

Question # 20 of 20

Total Marks: 1

What will be the result of the difference of real and nominal interest rate?

Select correct option:

The cost of borrowing

The effect of inflation

The price of bonds

The return of bonds

Question # 1 of 20

The Financial Systems makes it easier to trade because it:

Select correct option: Facilitate Payments

Channels Funds from Savers to Borrowers

Enables Risk Sharing

All of the given options

Question # 2 of 20

The process of financial intermediation:

Select correct option:

Creates a net cost to an economy but is unavoidable

Is used primarily in underdeveloped countries

Is always used when a borrower needs to obtain funds

Increases the economy's ability to produce

Question # 3 of 20

What is true relationship between return and risk?

Select correct option:

Lower the risk greater the return

Greater the risk greater the return

Greater the risk the return will remain constant

Question # 4 of 20

Financial instruments are evolved just as _____.

Select correct option:

Currency

Stock

Bond

Commodity

Question # 5 of 20

Beside default risk which one if the following factor affects the return on bond?

Select correct option:

Taxes

Monetary policy

Junk bonds

Debt

The second important factor that affects the return on a bond is taxes

Question # 7 of 20 (Start time: 06:31:33 PM) Total Marks: 1

Which of the following is the measure of likelihood that an event will occur?

Select correct option:

Risk

Probability

Frequency

Question # 8 of 20

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

Select correct option:

Short-term interest rates to rise sharply

Short-term interest rates to stay near their current levels

Short-term interest rates to drop sharply

Short-term interest rates does not change

Question # 9 of 20 Home loans and car loans are the example of which one of the following?

Select correct option:

Mortgage loans

Pledge

Fixed Payment Loans

Fixed Payment Loans

They promise a fixed number of equal payments at regular intervals

Home mortgages and car loans are examples of fixed payment loans

Question # 10 of 20

Which one of the following is the procedure of finding out the Present Value (PV)?

Select correct option:

Discounting

Compounding

Time value of money

Bond pricing

Question # 12 of 20

Considering the Liquidity Premium Theory, if investors expect short term interest rates to decrease:

Select correct option:

The yield curve must have a positive slope

The yield curve must be inverted

The yield curve could be flat

The slope of the yield curve should actually increase

Question # 14 of 20

Most of the people among us are _____.

Select correct option:

Risk lovers

Risk enhancers

Risk averse

Risk tolerating

Question # 15 of 20

A risk-averse investor will:

Select correct option:

Always prefer an investment with a lower expected return

Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty

Always require a certain return

Always focus exclusively on the expected return

Question # 16 of 20

The liquidity premium theory suggests that yield curves should usually be:

Select correct option:

Up-sloping

Inverted

Flat

Up-sloping through year 1, then flat thereafter

Wider the range of outcome wider will be the _____.

Select correct option:

Risk

Profit

Probability

Measuring Risk

Most of us have an intuitive sense for risk and its measurement;

The wider the range of outcomes the greater the risk

The return on holding a bond till its maturity is called:

Coupon rate

Yield to maturity

Current yield

Fixed return

Question # 20 of 20

If information in a financial market is asymmetric, this means:

Select correct option:

Borrowers and lenders have perfect information

Borrowers would have more information than lenders

Borrowers and lenders have the same information

Lenders lack any information

According to the rule of 72 for reasonable rates of return, the time it takes to _____ the money will be $t = 72/i\%$

Select correct option:

Doubles

Triples

Halves

3/4

Stock market bubbles can lead to:

Select correct option:

An inefficient allocation of resources

Stock market crashes

Patterns of volatile returns from the stock market

All of the given options

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

Select correct option:

Higher the tax rate wider the gap between the yield of taxable and tax exempt bond

Taxable bond yield is always greater than tax exempt bond

Higher the tax rate shorter the gap between yield of taxable and tax exempt bond

Lower the tax rate wider the gap between yield of taxable and tax exempt bond

change

The Dividend-Discount Model of stock valuation:

Select correct option:

Takes the annual dividend, adds it to the expected future selling price and divides by the number of years to get the current price

Takes the net present value of expected dividends and add it to the future sale price of the stock

Takes the net present value of the expected future price of the stock and add the annual dividend

Is an application of the net present value formula

In which of the following bonds we may ignore the default risk?

Select correct option:

Privately issued bonds

Government issued bonds

Bonds issued by Corporate

All of the given options

The slope of the yield curve seems to predict the performance of the economy with:

Select correct option:

Usually 3 months lag

Usually two years lag

Usually within few weeks

Usually one year lag

The GDP deflator is calculated as_____.

Select correct option:

Nominal GDP/Real GDP *100

Real GDP/Nominal GDP

Nominal GDP – Real GDP

Real GDP – Nominal GDP

What is true about the relationship between standard deviation and risk?

Select correct option:

Greater the standard deviation greater will be the risk

Greater the standard deviation lower will be the risk

Greater the standard deviation risk remains the same

No relation between them

The concept of limited liability says a stockholder of a corporation:

Select correct option:

Is liable for the corporation's liabilities, but nothing more

Cannot receive dividends that exceed their investment

Cannot own more than five percent of any public corporation

Cannot lose more than their investment

Which of the following best describes the relationship between Bond prices and yields?

Select correct option:

Move together inversely

Bond yields do not change since the coupon is fixed

Move together directly

Are independent of each other

Which of the following best expresses the payment a lender receives for lending their money for four years?

Select correct option:

$PV(1+i)^4$

$PV/(1+i)^4$

$4PV$

$PV/(1-i)^4$

If YTM is greater than the coupon rate the price of the bond is _____.

Select correct option:

Greater than its face value

Lower than its face value

Equals to its face value

All of the given options

Bond Price < Face Value:

Coupon Rate < Current Yield < Yield to Maturity

Question # 1

The _____ are an assessment of the creditworthiness of the corporate issuer.

Select correct option:

Bond yield

Bond price

Bond risk

Bond ratings

Bond price

Question # 2

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

Select correct option:

Because only interest income they receive from bond is taxable

Because principal amount and interest income they receive from bond is taxable

Because bond holders are taxpayers

Because all bond is sold with a condition that tax will be deducted from its return

The second important factor that affects the return on a bond is taxes

Bondholders must pay income tax on the interest income they receive from privately issued

Question # 3

The relationship between the price and the interest rate for a zero coupon bond is best described as:

Select correct option:

Volatile

Stable

Non-existent

Inverse

Question # 4

When stock prices reflect fundamental values:

Select correct option:

All investors will experience capital gains

All companies will have an easier task of obtaining financing for investment projects

The allocation of resources will be more efficient

The overall level of the stock market should move higher continuously

Question # 5

Coupon bonds make the annual payments which are called as _____.
Select correct option:

- Annual payments
- Fixed payments
- Coupon payments**
- Maturity payment

Question # 6

If information in a financial market is asymmetric, this means:
Select correct option:

- Borrowers and lenders have perfect information
- Borrowers would have more information than lenders**
- Borrowers and lenders have the same information
- Lenders lack any information

Question # 7

If YTM equals the coupon rate the price of the bond is _____.
Select correct option:

- Greater than its face value
- Lower than its face value
- Equals to its face value**
- Insufficient information

Question # 8

The Financial Systems makes it easier to trade because it:
Select correct option:

- Facilitate Payments
- Channels Funds from Savers to Borrowers
- Enables Risk Sharing
- All of the given options**

Question # 9 of

Debt instruments is categorized on the basis of which one of the following?
Select correct option:

Loan maturity period

Interest rates

Mode of payment of interest

Amount of the debt taken

Question # 10

The return on holding a bond till its maturity is called:

Select correct option:

Coupon rate

Yield to maturity

Current yield

Internal rate of return

Question # 11

Which of the following are used to monitor and stabilize the economy?

Select correct option:

Stock exchanges

Commercial Banks

Central Banks

Financial institutions

Question # 12

Previously financial markets are located in which of the following?

Select correct option:

Coffee houses or Taverns .

Stock exchanges

Bazaar

Coffee houses and Stock exchanges

Financial Markets

To buy and sell financial instruments quickly and cheaply

Evolved from coffeehouses to trading places (Stock exchanges) to electronic networks

Transactions are much more cheaper now

Markets offer a broader array of financial instruments than were available even 50 years ago

Question # 13

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

Select correct option:

Free-riding

Moral hazard

Adverse selection

The Lemons market

Question # 14

Which one of the following is the procedure of finding out the Present Value (PV)?

Select correct option:

Discounting

Compounding

Time value of money

Bond pricing

Question # 15

_____ are organized to eliminate the need of costly information gathering.

Select correct option:

Central bank

Commercial banks

Stock exchanges

Insurance companies

Question # 16

With direct finance we mean which of the following?

Select correct option:

Individuals (or firms) borrow directly from the savers

Individuals (or firms) borrow directly from banks.

Individuals deposit savings directly in banks.
Firms deposit savings directly in banks.

Question # 17

Yield curves show which of the followings?
Select correct option:

The relationship between bond interest rates (yields) and bond prices
The relationship between liquidity and bond interest rates (yields)
The relationship between risk and bond interest rates (yields)
The relationship between time to maturity and bond interest rates (yields)

Question # 18

In a financial market where information is symmetric:
Select correct option:

The same information would be known by both parties in a transaction
One party to a transaction knows information the other party does not
The ability to obtain information is available to only one party
All of the given options

Question # 19

Other things remaining equal, the liquidity premium theory is based upon the idea that _____.
Select correct option:

Investors prefer long-term bonds
Investors prefer short-term bonds
Investors are indifferent between short-term and long-term bonds
Investors prefer intermediate-term bonds

Question # 20

Spreading involves:
Select correct option:

Finding assets whose returns are perfectly negatively correlated
Building a portfolio of assets whose returns move together
Investing in bonds and avoiding stocks during bad times
Adding assets to a portfolio that move independently

Question # 1 of 20 (Start time: 05:44:09 PM) Total Marks: 1

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

Select correct option:

Spreading the risk
Standard deviation

Hedging the risk

Variance

Question # 2 of 20 (Start time: 05:44:45 PM) Total Marks: 1

The lowest rating for an investment grade bond assigned by Moody's is:

Select correct option:

BBB

ABB

Baa

Aaa

Which one of the following is the narrowest definition of money?

Select correct option:

C

M1

M2

M3

Question # 4 of 20 (Start time: 05:46:15 PM) Total Marks: 1

The price of a coupon bond can best be described as:

Select correct option:

The present value of the face value

The future value of the coupon payments and the face value

The present value of the coupon payments

Both The present value of the face value and of the coupon payments

Question # 5 of 20 (Start time: 05:46:53 PM) Total Marks: 1

We need _____ to carry out day to day transactions.

Select correct option:

Money

Bonds

Stocks

Loans

Question # 6 of 20 (Start time: 05:47:16 PM) Total Marks: 1

The process of financial intermediation:

Select correct option:

Creates a net cost to an economy but is unavoidable
Is used primarily in underdeveloped countries
Is always used when a borrower needs to obtain funds
Increases the economy's ability to produce

Question # 7 of 20 (Start time: 05:47:51 PM) Total Marks: 1

Considering the Liquidity Premium Theory, if investors expect short term interest rates to decrease:

Select correct option:

The yield curve must have a positive slope
The yield curve must be inverted
The yield curve could be flat
The slope of the yield curve should actually increase

Question # 8 of 20 (Start time: 05:48:41 PM) Total Marks: 1

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

Select correct option:

Higher the tax rate wider the gap between the yield of taxable and tax exempt bond

Taxable bond yield is always greater than tax exempt bond
Higher the tax rate shorter the gap between yield of taxable and tax exempt bond
Lower the tax rate wider the gap between yield of taxable and tax exempt bond

Question # 9 of 20 (Start time: 05:49:13 PM) Total Marks: 1

Which of the following expresses 6.5%?

Select correct option:

0.0065
6.50
0.650
0.0650

Question # 10 of 20 (Start time: 05:50:19 PM) Total Marks: 1

What will be the result of the difference of real and nominal interest rate?

Select correct option:

The cost of borrowing
The effect of inflation
The price of bonds

The return of bonds

Question # 11 of 20 (Start time: 05:50:40 PM) Total Marks: 1

Other things remaining equal, the liquidity premium theory is based upon the idea that

_____.

Select correct option:

Investors prefer long-term bonds

Investors prefer short-term bonds

Investors are indifferent between short-term and long-term bonds

Investors prefer intermediate-term bonds

Question # 12 of 20 (Start time: 05:51:25 PM) Total Marks: 1

The Segmented Markets Theory of term structure suggests that:

Select correct option:

Investors have strong preferences for bonds of a particular maturity

Investors have no preference for short-term bonds over long-term bonds, or vice versa

Interest rates on long-term bonds strongly influence the demand for short-term bonds

Bonds of different maturities are perfect substitutes for each other

Question # 13 of 20 (Start time: 05:52:23 PM) Total Marks: 1

Often a bank will require a loan officer to make personal visits on customers with loans outstanding. This is encouraged because:

Select correct option:

The bank worries about competitors trying to steal their customers

The bank wants to make sure the business is still there

The bank likely has excess funds available and hopes to make another loan to the business

This is an effective monitoring technique and should reduce moral hazard

Question # 14 of 20 (Start time: 05:53:10 PM) Total Marks: 1

If the tax rate is higher than gap between yield on taxable and tax exempt bond?

Select correct option:

Shorter

Wider

No gap

Any thing can be possible

Question # 15 of 20 (Start time: 05:53:46 PM) Total Marks: 1

Investors will hold higher compensation for the _____ investment.

Select correct option:

More risky

Less risky

Fixed return

Less dividend

Question # 16 of 20 (Start time: 05:54:14 PM) Total Marks: 1

Which of the following are used to monitor and stabilize the economy?

Select correct option:

Stock exchanges

Commercial Banks

Central Banks

Financial institutions

Question # 17 of 20 (Start time: 05:54:38 PM) Total Marks: 1

The theory of efficient market states that prices of financial instruments reflect:

Select correct option:

All available information

Some of the information

No information

Imperfect information

Question # 18 of 20 (Start time: 05:55:37 PM) Total Marks: 1

With direct finance we mean which of the following?

Select correct option:

Individuals (or firms) borrow directly from the savers

Individuals (or firms) borrow directly from banks.

Individuals deposit savings directly in banks.

Firms deposit savings directly in banks.

Question # 19 of 20 (Start time: 05:56:08 PM) Total Marks: 1

Which of the following best describes the relationship between Bond prices and yields?

Select correct option:

Move together inversely

Bond yields do not change since the coupon is fixed

Move together directly

Are independent of each other

Question # 20 of 20 (Start time: 05:56:35 PM) Total Marks: 1

The fact that common stockholders are residual claimants means:
Select correct option:

The stockholders receive their dividends before any other residuals are paid

The stockholders receive the remains after everyone else is paid

The stockholders are paid any past due dividends before other claims are paid

The common stockholders are responsible for all corporate debts

Question # 1 of 20 (Start time: 08:59:18 PM) Total Marks: 1

Which of the following best expresses the payment a lender receives for lending their money for four years?

Select correct option:

$PV(1+i)^4$

$PV/(1+i)^4$

$4PV$

$PV/(1-i)^4$

Question # 2 of 20 (Start time: 08:59:55 PM) Total Marks: 1

Bonds that are issued by Government are called _____.

Select correct option:

Government bond

Treasury bond

Corporate bond

Callable Bonds

Question # 3 of 20 (Start time: 09:00:14 PM) Total Marks: 1

_____ is the interest rate at which the present value annual revenue equals the cost of the investment.

Select correct option:

Fixed rate of interest

Internal rate of return

Variable rate of interest

Nominal rate of interest

Question # 4 of 20 (Start time: 09:00:38 PM) Total Marks: 1

In which of the following bonds we may ignore the default risk?

Select correct option:

Privately issued bonds

Government issued bonds

Bonds issued by Corporate

All of the given options

Question # 5 of 20 (Start time: 09:00:53 PM) Total Marks: 1

Most of the people among us are _____.

Select correct option:

Risk lovers

Risk enhancers

Risk averse

Risk tolerating

Question # 7 of 20 (Start time: 09:01:26 PM) Total Marks: 1

A risk-averse investor will:

Select correct option:

Always prefer an investment with a lower expected return

Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty

Always require a certain return

Always focus exclusively on the expected return

Question # 8 of 20 (Start time: 09:01:51 PM) Total Marks: 1

Which of the following is NOT included in the definition of M1?

Select correct option:

Traveler's checks

Demand deposits

Currency

Gold coins issued by treasury

Question # 9 of 20 (Start time: 09:02:04 PM) Total Marks: 1

Which one of the following is true for financial intermediaries?

Select correct option:

Channel funds from savers to borrowers

Greatly enhance economic efficiency

Have been an source of many financial innovations

All of the given options

Question # 10 of 20 (Start time: 09:02:32 PM) Total Marks: 1

The lowest rating for an investment grade bond assigned by Moody's is:

Select correct option:

BBB

ABB

Baa

Aaa

Question # 11 of 20 (Start time: 09:03:58 PM) Total Marks: 1

If YTM is less than the coupon rate the price of the bond is _____.

Select correct option:

Greater than its face value

Lower than its face value

Equals to its face value

All of the given options

Question # 12 of 20 (Start time: 09:05:29 PM) Total Marks: 1

What will be the effect on the present value if we double the future value of the payment?

Select correct option:

It will decrease the value by one-half

It will increase the value by one-half

It will equally increase the value i.e. doubles the value

It will have no effect on the value

Question # 13 of 20 (Start time: 09:06:06 PM) Total Marks: 1

Which one of the following is the narrowest definition of money?

Select correct option:

C

M1

M2

M3

Question # 14 of 20 (Start time: 09:06:50 PM) Total Marks: 1

We need _____ to carry out day to day transactions.

Select correct option:

Money

Bonds

Stocks

Loans

Question # 15 of 20 (Start time: 09:07:01 PM) Total Marks: 1

Which one of the following is the strategy of reducing overall risk by making two

investments which are totally independent of each other?

Select correct option:

Spreading the risk

Standard deviation

Hedging the risk

Variance

Question # 16 of 20 (Start time: 09:08:07 PM) Total Marks: 1

The Segmented Markets Theory of term structure suggests that:

Select correct option:

Investors have strong preferences for bonds of a particular maturity (This is correct)

Investors have no preference for short-term bonds over long-term bonds, or vice versa

Interest rates on long-term bonds strongly influence the demand for short-term bonds

Bonds of different maturities are perfect substitutes for each other

Question # 17 of 20 (Start time: 09:09:36 PM) Total Marks: 1

The process of financial intermediation:

Select correct option:

Creates a net cost to an economy but is unavoidable

Is used primarily in underdeveloped countries

Is always used when a borrower needs to obtain funds

Increases the economy's ability to produce

Question # 18 of 20 (Start time: 09:09:56 PM) Total Marks: 1

What will the yield curve look like if future short-term interest rates are expected to rise sharply?

Select correct option:

It will steeply slope upward

It will be horizontal

It will slightly slope upward

It will slope downward

Question # 19 of 20 (Start time: 09:10:37 PM) Total Marks: 1

Sum of all the probabilities should be equal to which one of the following?

Select correct option:

Zero

One

Two

Three

Spreading involves:

Select correct option:

Finding assets whose returns are perfectly negatively correlated

Building a portfolio of assets whose returns move together

Investing in bonds and avoiding stocks during bad times

Adding assets to a portfolio that move independently

Internal Rate of Return is _____.

Select correct option:

Present value of investment

Future value of its investment +Cost of investment

Cost of investment

Present value of investment + cost of investment

Which of the following best describes checks?

Select correct option:

A means of payment

Money

Not a promise of any kind

Not acceptable by the U.S. Government for payment of taxes.

A business cycle downturn shifts the bond supply to the:

Select correct option:

Right

Left

No change

None of the given options

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

Select correct option:

Short-term interest rates to rise sharply

Short-term interest rates to stay near their current levels

Short-term interest rates to drop sharply

Short-term interest rates does not change

Which of the following represents the fisher's equation?

Select correct option:

Nominal interest rate = real interest rate + inflation

Nominal interest rate + inflation = real interest rate

Nominal interest rate = real interest rate - inflation

Nominal interest rate = real interest rate / inflation

Bonds that are issued by Government are called _____.

Select correct option:

Government bond

Treasury bond

Corporate bond

Callable Bonds

What will the yield curve look like if future short-term interest rates are expected to rise sharply?

Select correct option:

It will steeply slope upward

It will be horizontal

It will slightly slope upward

It will slope downward

The interest rate that is involved in _____ calculation is referred to as discount rate

Select correct option:

Present value

Future value

Intrinsic value

Discount value

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

Select correct option:

Higher the tax rate wider the gap between the yield of taxable and tax exempt bond

Taxable bond yield is always greater than tax exempt bond

Higher the tax rate shorter the gap between yield of taxable and tax exempt bond

Lower the tax rate wider the gap between yield of taxable and tax exempt bond

You start with a \$1000 portfolio; it loses 40% over the next year, the following year it gains 50% in value; At the end of two years the worth of your portfolio will be:

Select correct option:

\$900

\$600

\$1000

\$1100

first year gain = $1000 \times .40 = 400$

second year loss = $1000 \times .5 = 500$

Total gain or loss after two year = $400 - 500 = -100$

$1000 - 100 = 900$

.

What is true relationship between return and risk?

Select correct option:

Lower the risk greater the return

Greater the risk greater the return

Greater the risk the return will remain constant

No relationship between them

Which of the following is NOT included in the definition of M1?

Select correct option:

Traveler's checks

Demand deposits

Currency

Gold coins issued by treasury

The Financial Systems makes it easier to trade because it:

Select correct option:

Facilitate Payments

Channels Funds from Savers to Borrowers

Enables Risk Sharing

All of the given options

Which one of the following agencies assesses the default risk of different issuers?

Select correct option:

Insurance companies

Bond issuing

Credit rating

Recruitment agencies

In which of the following bonds we may ignore the default risk?

Select correct option:

Privately issued bonds

Government issued bonds

Bonds issued by Corporate

All of the given options

Which of the following best describes default risk?

Select correct option:

The chance the issuer will be unable to make interest payments or repay principal

The chance the issuer will retire the debt early

The chance the issuing firm will be sold to another firm

The chance the issuer will sell more debt

Coupon bonds make the annual payments which are called as _____.

Select correct option:

Annual payments

Fixed payments

Coupon payments

Maturity payment

Q 1: Investors will hold higher compensation for the _____ investment.

Select correct option:

More risky

Less risky

Fixed return

Less dividend

Q 2: Which of the following is true of a nation's central bank?

Select correct option:

It makes important decisions about the nation's tax and public spending policies

It lends only to the nations largest and most important business firms

It has many interactions with the nation's citizens and businesses

It is responsible for conducting the nation's monetary policy

Q 3: A financial instrument in which a borrower obtains resources from a lender immediately in exchange for a promised set of payments in the future is called as _____.

Select correct option:

Bond

Bank Loan

Home Mortgage

Futures Contract

Q 4: An increase in wealth shifts the demand for bonds to the _____.

Select correct option:

Left

Right

No change

All of the given options

Q 5: The slope of the yield curve seems to predict the performance of the economy with:

Select correct option:

Usually 3 months lag

Usually two years lag

Usually within few weeks

Usually one year lag

Q 6: If YTM equals the coupon rate the price of the bond is _____.

Select correct option:

Greater than its face value

Lower than its face value

Equals to its face value

Insufficient information

Q 7: An increase in the expected inflation shifts the bond demand to the _____.

Select correct option:

Right

Left

No change

All of the given options

Q 8: Which of the following would be considered characteristic of money?

It is store of value

It pays a higher return than most assets

It is in fixed supply

It is legal tender everywhere in the world

Q 9: The interest rate that is involved in _____ calculation is referred to as discount rate

Select correct option:

Present value

Future value

Intrinsic value

Discount value

Q 10: Debt instruments are categorized on the basis of which one of the following?
Select correct option:

- Loan maturity period
- Interest rates
- Mode of payment of interest
- Amount of the debt taken**

Q 11: Which of the following is NOT an example of financial institutions? Select correct option:

- Banks
- Securities firms
- Stock exchanges**
- Insurance companies

Q 12: When stock prices reflect fundamental values:

- All investors will experience capital gains
- All companies will have an easier task of obtaining financing for investment projects
- The allocation of resources will be more efficient**
- The overall level of the stock market should move higher continuously

Q 13: If YTM is greater than the coupon rate the price of the bond is _____.
Select correct option:

- Greater than its face value
- Lower than its face value**
- Equals to its face value
- All of the given options

Q 14: A _____ is a promise to make a series of payments on specific future date.
Select correct option:

- Stock
- Bond**
- Loan
- Cheque

Q 15: Without the ability of financial intermediaries to pool the resources of small savers: Select correct option:

- Borrowers needing large amounts of money would find it less costly to obtain the funds
- The economy would likely grow faster

People would likely save more

The risk associated with lending would increase

Q 16: A bank can usually offer a saver a higher return for the same risk because: Select correct option:

The bank can usually purchase assets at a higher cost than any one saver

The bank can pool the resources of larger savers and purchase lower denominated assets NOT SURE

Economies of scale can be applied by the bank in its purchase of assets None of the given options

Q 17: The fact that a financial intermediary can use the same contract for many customers is an example of: Select correct option:

Economies of Scope

The Law of Diminishing Marginal Returns

The Law of Increasing Opportunity Cost

Economies of Scale

Q 18: _____ are organized to eliminate the need of costly information gathering. Select correct option:

Central bank

Commercial banks

Stock exchanges

Insurance companies

Q 19: What will be the effect on the present value if we double the future value of the payment? Select correct option:

It will decrease the value by one-half

It will increase the value by one-half

It will equally increase the value i.e. doubles the value NOT SURE

It will have no effect on the value

Q 20: Which one of the following is the narrowest definition of money? Select correct option:

C

M1

M2

M3

MGT411 – Money & Banking

Online Quiz # 2
December 26, 2009

Question # 1 of 20 (Start time: 02:24:40 AM) Total Marks: 1

Core principles of Money and Banking include each of the following except?

Select correct option:

People act rationally

Time has value

Information is the basis for decisions

Risk requires compensation

Question # 2 of 20 (Start time: 02:25:14 AM)

Internal Rate of Return is _____.

Select correct option:

Present value of investment

Future value of its investment +Cost of investment

Cost of investment

Present value of investment + cost of investment

Question # 3 of 20 (Start time: 02:26:35 AM) Total Marks: 1

The relationship between the price and the interest rate for a zero coupon bond is best described as:

Select correct option:

Volatile

Stable

Non-existent

Inverse (see page # 43 of handouts)

Question # 4 of 20 (Start time: 02:27:03 AM) Total Marks: 1

Which one of the following is the narrowest definition of money?
Select correct option:

C

M1 (see page # 12)

M2

M3

Question # 5 of 20 (Start time: 02:27:13 AM) Total Marks: 1

Investors will hold higher compensation for the _____ investment.
Select correct option:

More risky

Less risky

Fixed return

Less dividend

Question # 6 of 20 (Start time: 02:27:47 AM) Total Marks: 1

What is the true relationship that exists between default risk and yield?
Select correct option:

Higher the default risk, higher the yield (see page # 53)

Lower the default risk, higher the yield

Higher the default risk yield will remain constant

Lower the default risk yield will remain constant

Question # 7 of 20 (Start time: 02:28:19 AM) Total Marks: 1

Without the ability of financial intermediaries to pool the resources of small savers:
Select correct option:

Borrowers needing large amounts of money would find it less costly to obtain the funds

The economy would likely grow faster

People would likely save more

The risk associated with lending would increase

Question # 8 of 20 (Start time: 02:29:10 AM) Total Marks: 1

When a bond becomes more liquid relative to its alternatives, the demand curve for bonds shifts to the:

Select correct option:

Right (see page # 49)

Left

No change

None of the given options

Question # 9 of 20 (Start time: 02:29:40 AM) Total Marks: 1

In a financial market where information is symmetric:

Select correct option:

The same information would be known by both parties in a transaction

One party to a transaction knows information the other party does not

The ability to obtain information is available to only one party

All of the given options

Question # 10 of 20 (Start time: 02:30:07 AM) Total Marks: 1

The _____ are an assessment of the creditworthiness of the corporate issuer.

Select correct option:

Bond yield

Bond ratings (see page # 54)

Bond risk

Bond price

Question # 11 of 20 (Start time: 02:30:25 AM) Total Marks: 1

An increase in the expected inflation shifts the bond demand to the _____.

Select correct option:

Right

Left

No change

All of the given options

Question # 12 of 20 (Start time: 02:31:19 AM) Total Marks: 1

Which of the following is NOT included in the definition of M1?

Select correct option:

Traveler's checks

Demand deposits

Currency

Gold coins issued by treasury (see page # 12)

Question # 13 of 20 (Start time: 02:32:21 AM) Total Marks: 1

Bonds without maturity dates are which of the followings?

Select correct option:

Zero coupon bonds

Coupon securities

Consols

Preferred Bonds

Question # 14 of 20 (Start time: 02:33:14 AM) Total Marks: 1

Debt instruments is categorized on the basis of which one of the following?

Select correct option:

Loan maturity period (See page # 20)

Interest rates

Mode of payment of interest

Amount of the debt taken

Question # 15 of 20 (Start time: 02:33:37 AM) Total Marks: 1

Which of the following institution take direct deposit from customer and give loan to customer directly?

Select correct option:

Zarai Tarkaytee Bank LTD

Soneri Bank

Khushali Bank

Credit unions

(not sure, but i selected option # 4, kindly verify it)

Question # 16 of 20 (Start time: 02:33:53 AM) Total Marks: 1

If we ignore risk, the dividend discount model says the fundamental price of a stock is simply:

Select correct option:

The current dividend divided by the interest rate less the dividend growth rate

The annual growth rate of the dividend minus the interest rate divided by the current dividend

The current dividend divided by the interest rate plus the dividend growth rate

The current dividend divided by the dividend growth rate less the interest rate

Question # 17 of 20 (Start time: 02:34:59 AM) Total Marks: 1

Which of the following is true of a nation's central bank?

Select correct option:

It makes important decisions about the nation's tax and public spending policies

It lends only to the nation's largest and most important business firms

It has many interactions with the nation's citizens and businesses

It is responsible for conducting the nation's monetary policy (see page # 96)

Question # 18 of 20 (Start time: 02:35:56 AM) Total Marks: 1

If bond's rating is lower, what will be its price?

Select correct option:

Higher

Lower

Equal to

No change

(not 100% sure, but option # 2 "Lower" seems most appropriate)

Question # 19 of 20 (Start time: 02:36:57 AM) Total Marks: 1

The price of a coupon bond can best be described as:

Select correct option:

The present value of the face value

The future value of the coupon payments and the face value

The present value of the coupon payments

Both The present value of the face value and of the coupon payments (see page # 31 & 32)

Question # 20 of 20 (Start time: 02:37:36 AM) Total Marks: 1

Which one of the following is NOT true for the expectation hypothesis?

Select correct option:

Risk free interest rate can be computed

There is uncertainty in the future

Identifying yield of bond today that will be available next year

It focuses on risk free interest rate and the risk premium

(not 100%, but I selected option # 2, see page # 58)

Question # 1 of 20 (Start time: 12:09:02 AM) Total Marks: 1

When a bond becomes more liquid relative to its alternatives, the demand curve for bonds shifts to the:

Select correct option:

Right (page # 49)

Left

No change

None of the given options

Question # 2 of 20 (Start time: 12:09:36 AM) Total Marks: 1

According to the rule of 72 for reasonable rates of return, the time it takes to _____ the money will be $t = 72/i\%$

Select correct option:

Doubles (page # 27)

Triples

halves

3/4

Question # 3 of 20 (Start time: 12:10:22 AM) Total Marks: 1

Which one of the following is the narrowest definition of money?

Select correct option:

C

M1 (see page # 12)

M2

M3

Question # 4 of 20 (Start time: 12:11:17 AM) Total Marks: 1

An index number is a valuable tool because:

Select correct option:

The number by itself provides all of the useful information needed

The index provides a meaningful measurement scale to calculate percentage changes

The index is more stable than the data it reflects

It does not require any calculations to compute percentage changes

(not sure, but I selected option # 2, kindly verify it)

Question # 5 of 20 (Start time: 12:12:34 AM) Total Marks: 1

Yield curves show which of the followings?

Select correct option:

The relationship between bond interest rates (yields) and bond prices

The relationship between liquidity and bond interest rates (yields)

The relationship between risk and bond interest rates (yields)

The relationship between time to maturity and bond interest rates (yields) (see page # 57)

Question # 6 of 20 (Start time: 12:12:55 AM) Total Marks: 1

A zero coupon bond:

Select correct option:

Does not pay any coupon payments because the issuer is in default

Pays coupons only once a year versus the usual twice a year

Promises a single future payment (see page # 42)

Pays coupons only if the bond price is below face value

Question # 7 of 20 (Start time: 12:13:32 AM) Total Marks: 1

Home loans and car loans are the example of which one of the following?

Select correct option: <http://vustudents.ning.com>

Mortgage loans

Pledge

Fixed Payment Loans (see page # 43)

Ordinary loan

Question # 8 of 20 (Start time: 12:14:45 AM) Total Marks: 1

Without the ability of financial intermediaries to pool the resources of small savers:

Select correct option:

Borrowers needing large amounts of money would find it less costly to obtain the funds

The economy would likely grow faster

People would likely save more

The risk associated with lending would increase

Question # 9 of 20 (Start time: 12:16:11 AM) Total Marks: 1

What is the true relationship that exists between default risk and yield?

Select correct option:

Higher the default risk, higher the yield (see page # 53)

Lower the default risk, higher the yield

Higher the default risk yield will remain constant

Lower the default risk yield will remain constant

Question # 10 of 20 (Start time: 12:17:28 AM) Total Marks: 1

Expectation hypothesis focuses on which one of the following?

Select correct option:

Risk premium

Risk free interest rate

Yield to maturity

None of the given options

(Not sure, but I selected option# 2)

Question # 11 of 20 (Start time: 12:18:49 AM) Total Marks: 1

Spreading involves:

Select correct option:

Finding assets whose returns are perfectly negatively correlated

Building a portfolio of assets whose returns move together

Investing in bonds and avoiding stocks during bad times

Adding assets to a portfolio that move independently

(Confused b/w option # 1 & 4, read page # 41)

Question # 12 of 20 (Start time: 12:19:20 AM) Total Marks: 1

The _____ are an assessment of the creditworthiness of the corporate issuer.

Select correct option:

Bond yield

Bond ratings

Bond risk

Bond price

Question # 13 of 20 (Start time: 12:19:36 AM) Total Marks: 1

Which one of the following is the procedure of finding out the Present Value (PV)?

Select correct option:

Discounting

Compounding

Time value of money

Bond pricing

Question # 14 of 20 (Start time: 12:20:00 AM) Total Marks: 1

Which of the following best describes the relationship between Bond prices and yields?

Select correct option:

Move together inversely

Bond yields do not change since the coupon is fixed

Move together directly

Are independent of each other

Question # 15 of 20 (Start time: 12:21:08 AM)

Which of the following institution take direct deposit from customer and give loan to customer directly?

Select correct option:

Zarai Tarkaytee Bank LTD

Soneri Bank

Khushali Bank

Credit union

(I selected "Credit Union", not 100% sure)

Question # 16 of 20 (Start time: 12:22:32 AM) Total Marks: 1

When the auto manufacturing industry does poorly due to a recession this is an example of:

Select correct option:

Idiosyncratic risk

Systematic risk

Risk premium

Unique risk

(It should be "Systematic Risk", but again not 100% sure) see page # 39.

Question # 17 of 20 (Start time: 12:23:42 AM) Total Marks: 1

A bank can usually offer a saver a higher return for the same risk because:

Select correct option:

The bank can usually purchase assets at a higher cost than any one saver

The bank can pool the resources of larger savers and purchase lower denominated assets

Economies of scale can be applied by the bank in its purchase of assets

None of the given options

Question # 18 of 20 (Start time: 12:24:51 AM) Total Marks: 1

In a financial market where information is symmetric:

Select correct option:

The same information would be known by both parties in a transaction

One party to a transaction knows information the other party does not

The ability to obtain information is available to only one party

All of the given options

Question # 19 of 20 (Start time: 12:25:29 AM) Total Marks: 1

The shape of the yield curve is usually:

Select correct option:

Upward sloping (page # 60)

Downward sloping

Upward sloping for shorter maturities and downward sloping for longer maturities

Flat

Question # 20 of 20 (Start time: 12:26:38 AM) Total Marks: 1

Which one of the following is true for financial intermediaries?

Select correct option:

Channel funds from savers to borrowers

Greatly enhance economic efficiency

Have been an source of many financial innovations

All of the given options

The fact that common stockholders are residual claimants means:
Select correct option:

The stockholders receive the remains after everyone else is paid

The stockholders are paid any past due dividends before other claims are paid
The common stockholders are responsible for all corporate debts

Which one of the following is true for financial intermediaries?
Select correct option:

Channel funds from savers to borrowers
Greatly enhance economic efficiency
Have been an source of many financial innovations
All of the given options

relationship between the price and the interest rate for a zero coupon bond is best described as:
Select correct option:

Volatile
Stable
Non-existent
Inverse

Reference: The price of a bond and the interest rate move in opposite directions

Consumer Price Index (CPI) measures the:
Select correct option:

Changes in the quantity

Changes in the prices

Changes in the cost
Changes in the profit

Reference: CPI :Measure of the overall level of prices

Core principles of Money and Banking include each of the following except?
Select correct option:

People act rationally

Time has value
Information is the basis for decisions
Risk requires compensation

The longer the time (n) until the payment:
Select correct option:

The lower the present value

The higher the present value because time is valuable
The lower must be the interest rate
Time has no effect on present value

When stock prices reflect fundamental values:
Select correct option:

All investors will experience capital gains
All companies will have an easier task of obtaining financing for investment projects

The allocation of resources will be more efficient

The overall level of the stock market should move higher continuously

Reference: So long as stock prices accurately reflect fundamental values, this resource allocation mechanism works well

What will be the result of the difference of real and nominal interest rate?
Select correct option:

The cost of borrowing

The effect of inflation

The price of bonds
The return of bonds

If the annual interest rate is 6%, the price of a 1-year Treasury bill with \$100 face value would be:

Select correct option:

\$94.00

\$94.33

\$95.25

\$96.10

Which of the following would probably NOT earn an A rating from Standard & Poor's:

Select correct option:

30 years bond issued by the U.S. Treasury

New vegetarian fast-food chain

90 days T-Bills issued by the U.S. Treasury

Both 30 years bond and 90 days T-Bills issued by U.S. Treasury

There is no guarantee that a bond issuer will make the promised payments is known as which one of the following?

Select correct option:

Default risk

Inflation risk

Interest rate risk

Systematic risk

If a bond sells at a premium, where price exceeds face value, then we would expect to see:

Select correct option:

Market interest rate the same as the coupon rate

Market interest rates above the coupon rate

Market interest rates below the coupon rate

All of the given options

Reference: So, When Market Interest Rate < Coupon Interest Rate, Market Value (or Price) of Bond >Par Value. Because when market is offering lower rate of return then the bond then the bond becomes valuable. This is known as a Premium Bond. Pg no.68 MGT201 H.outs

Which of the following is a role of a financial institution acting as a financial intermediary?

Select correct option:

Pooling the resources of small savers

Formulating oversight regulations
Sending out free calendars at the holidays
Lobbying legislators

Reference: The most straightforward economic function of a financial intermediary is to pool the resources of many small savers Pg no.71 MGT411 H.outs

Financial Systems makes it easier to trade because it:
Select correct option:

Facilitate Payments
Channels Funds from Savers to Borrowers
Enables Risk Sharing

All of the given options

Which of the following is the measure of likelihood that an event will occur?
Select correct option:

Risk
Probability
Frequency
Outcom

The concept of limited liability says a stockholder of a corporation:
Select correct option:

Is liable for the corporation's liabilities, but nothing more
Cannot receive dividends that exceed their investment
Cannot own more than fiver percent of any public corporation

Cannot lose more than their investment

Reference: Because of limited liability, investor's losses cannot exceed the price they paid for the stock Pg no.63 MGT411 H.outs

The risk premium for an investment:
Select correct option:

Increases with risk
Is a fixed amount added to the risk free return
Is negative for U.S. Treasury Securities
Is negative for risk averse investors



Question No: 1 (Marks: 1) - Please choose one

We need _____ to carry out day to day transactions.

☒ **Money**

☐ Bonds

☐ Stocks

☐ Loans

Question No: 2 (Marks: 1) - Please choose one

The reason for the government to get involved in the financial system is to:

☐ Protect investors

☐ Ensure the stability of the financial system

☐ Protect bank customers from monopolistic exploitation

☒ **All of the given options**

Question No: 3 (Marks: 1) - Please choose one

_____ are organized to eliminate the need of costly information gathering.

☐ Central banks

☐ Commercial banks

☒ **Stock exchanges**

☐ Insurance companies

Question No: 4 (Marks: 1) - Please choose one

All of the following are the components of M₂ EXCEPT?

☐ M₁

☐ Saving deposits

☒ **Travelers cheques**

☐ Mutual funds shares

Question No: 5 (Marks: 1) - Please choose one

A Financial Intermediary:

- ☐ Is an agency that guarantees a loan
- ☐ Is involved in direct finance
- ☒ **Would be used in indirect finance**
- ☐ None of the given options

Question No: 6 (Marks: 1) - Please choose one

Commissions paid to an insurance broker are an example of which of the following?

- ☐ Risk transfer
- ☐ Information asymmetry
- ☒ **Transaction costs**
- ☐ All of the given options

Question No: 7 (Marks: 1) - Please choose one

The financial intermediary that obtains funds largely through premium payments and uses those funds to purchase corporate bonds and mortgages is:

- ☐ Credit unions
- ☐ Mutual funds
- ☒ **Life insurance companies**
- ☐ Pension funds

Question No: 8 (Marks: 1) - Please choose one

Risk sharing is the characteristic of which one of the following?

- ☐ Checks
- ☐ Checking accounts
- ☐ Money
- ☒ **Bonds**

Question No: 9 (Marks: 1) - Please choose one

Bonds that are issued by Government are called _____.

- ☐ Government bonds
- ☒ **Treasury bonds**
- ☐ Corporate bonds
- ☐ Callable bonds

Question No: 10 (Marks: 1) - Please choose one

Which of the following is the difference that lies between the options and futures?

- ☐ Options is not binding whereas future is binding
- ☒ **Futures carry risks but Options didn't carry risk**
- ☐ Centralized clearinghouses guarantee futures but not options contracts
- ☐ There is no difference between options and futures

Question No: 11 (Marks: 1) - Please choose one

Which of the following describes the general formula for the calculation of the compound interest?

- ☐ $FV = PV/(1+i)^n$
- ☐ $FV = PV/(1-i)^n$
- ☒ **$FV = PV*(1+i)^n$**
- ☐ $FV = PV*(1-i)^n$

Question No: 12 (Marks: 1) - Please choose one

If you put \$1,000 per year into bank at 4% interest, how much would you have saved after 40 years?

- ☒ **\$90,000**
- ☐ \$98,826
- ☐ \$82,286
- ☐ \$85,880

right option could (\$95,025.52)

Question No: 13 (Marks: 1) - Please choose one

Which one of the following is the procedure of finding out the Present Value (PV)?

- ☒ **Discounting**
- ☐ Compounding
- ☐ Time value of money
- ☐ Bond pricing

Question No: 14 (Marks: 1) - Please choose one

What is true about the relationship between standard deviation and risk?

- ☒ **Greater the standard deviation greater will be the risk**
- ☐ Greater the standard deviation lower will be the risk
- ☐ Greater the standard deviation risk will be remained the same
- ☐ No relation between them

Question No: 15 (Marks: 1) - Please choose one

Most of the people among us are _____.

- ☐ Risk lovers
- ☐ Risk enhancers
- ☒ **Risk averse**
- ☐ Risk tolerating

Question No: 16 (Marks: 1) - Please choose one

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

- ☐ Spreading the risk
- ☐ Standard deviation
- ☒ **Hedging the risk**
- ☐ Variance

Question No: 17 (Marks: 1) - Please choose one

If ABC Inc. and XYZ Inc. have returns that are perfectly negatively correlated:

- ☒ **Adding XYZ Inc. to a portfolio that consists of only ABC Inc. will reduce risk**
- ☐ Adding ABC Inc. to a portfolio that includes only XYZ Inc. will increase risk
- ☐ Adding XYZ Inc. to a portfolio that consists of only ABC Inc. will neither increase nor decrease the risk of the portfolio
- ☐ Adding XYZ Inc. to a portfolio that consists of only ABC Inc. will lower systematic risk

Question No: 18 (Marks: 1) - Please choose one

Mr. A has a Treasury bill with a maturity period of 6 months where as Mr. B has a bond with a maturity period of 1 year. Which of the following statement is NOT true for this situation?

- ☐ Mr. A has paid less price for his bond than Mr. B
- ☒ **Mr. A and Mr. B is a holder of zero coupon bond**
- ☐ Mr. A will receive payment at the end of the maturity period
- ☐ Mr. B will receive the payment at the end of the maturity period

Question No: 19 (Marks: 1) - Please choose one

Which of the following statement is true for amortized loan?

- ☐ Payment includes interest and full amount of principal
- ☐ Payment includes only the interest
- ☒ **Payment includes both interest and some portion of the principal**
- ☐ Principal amount is paid fully in the periodic payments

Question No: 20 (Marks: 1) - Please choose one

Which of the following best describes the relationship between Bond prices and yields?

- ☐ Move together directly
- ☐ Independent of each other
- ☒ **Move together inversely**
- ☐ Bond yields do not change since the coupon is fixed

Question No: 21 (Marks: 1) - Please choose one

The relationship between the price and the interest rate for a zero coupon bond is best described as _____.

- ☐ Volatile
- ☐ Stable
- ☒ **Inverse**
- ☐ No relationship

Question No: 22 (Marks: 1) - Please choose one

The price of a 6-month Treasury Bill is _____ the price of a 1-year Treasury Bill.

- ☒ **Lower than**
- ☐ Higher than
- ☐ Equal to
- ☐ None of the given options

Question No: 23 (Marks: 1) - Please choose one

If YTM is greater than the coupon rate the price of the bond is _____.

- ☐ Greater than its face value
- ☒ **Lower than its face value**
- ☐ Equals to its face value
- ☐ Insufficient information is given

Question No: 24 (Marks: 1) - Please choose one

Current yield is equal to which of the following?

- ☐ Price paid / yearly coupon payment
- ☐ Price paid *yearly coupon payment
- ☐ Yearly coupon payment / face value of bond
- ☒ **Yearly coupon payment / price paid**

Question No: 25 (Marks: 1) - Please choose one

The_____ are an assessment of the creditworthiness of the corporate issuer.

- ☐ Bond yield
- ☒ **Bond ratings**
- ☐ Bond risk
- ☐ Bond price

Question No: 26 (Marks: 1) - Please choose one

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

- ☒ **Because only interest income they receive from bond is taxable**
- ☐ Because principal amount and interest income they receive from bond is taxable
- ☐ Because bond holders are taxpayers
- ☐ Because all bond is sold with a condition that tax will be deducted from its return

Question No: 27 (Marks: 1) - Please choose one

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

- ☒ **Higher the tax rate wider the gap between the yield of taxable and tax exempt bond**
- ☐ Taxable bond yield is always greater than tax exempt bond
- ☐ Higher the tax rate shorter the gap between yield of taxable and tax exempt bond
- ☐ Lower the tax rate wider the gap between yield of taxable and tax exempt bond

Question No: 28 (Marks: 1) - Please choose one

If the tax rate is higher than gap between yield on taxable and tax exempt bond?

- ☐ Shorter
- ☒ **Wider**
- ☐ No gap
- ☐ Any thing can be possible

Question No: 29 (Marks: 1) - Please choose one

Which of the following statement is correct about the yield curve?

- ☐ Yield on short term bonds are not more volatile than yield on long term bond
- ☒ **Long term yields tend to be higher than short term yield**
- ☐ Interest rate of different maturities don't tend to move together
- ☐ None of the given options

Question No: 30 (Marks: 1) - Please choose one

Which one of the following is NOT true for the expectation hypothesis?

- ☒ **Risk free interest rate can be computed**
- ☐ There is uncertainty in the future
- ☐ Identifying yield of bond today that will be available next year
- ☐ It focuses on risk free interest rate and the risk premium

Question No: 31 (Marks: 1) - Please choose one

The slope of the yield curve seems to predict the performance of the economy with:

- ☐ Usually 3 months lag
- ☐ Usually two years lag
- ☐ Usually within few weeks
- ☒ **Usually one year lag**

Question No: 32 (Marks: 1) - Please choose one

The liquidity premium theory suggests that yield curves should usually be:

- ☒ **Up-sloping**
- ☐ Inverted
- ☐ Flat
- ☐ Up-sloping through year 1, then flat thereafter

Question No: 33 (Marks: 1) - Please choose one

If we ignore risk, the dividend discount model says the fundamental price of a stock is simply:

- ☒ **The current dividend divided by the interest rate less the dividend growth rate**
- ☐ The annual growth rate of the dividend minus the interest rate divided by the current dividend
- ☐ The current dividend divided by the interest rate plus the dividend growth rate
- ☐ The current dividend divided by the dividend growth rate less the interest rate

Question No: 34 (Marks: 1) - Please choose one

The theory of efficient market states that prices of financial instruments reflect:

- ☒ **All available information**
- ☐ Some of the information
- ☐ No information
- ☐ Imperfect information

Question No: 35 (Marks: 1) - Please choose one

Without the ability of financial intermediaries to pool the resources of small savers:

- ☐ Borrowers needing large amounts of money would find it less costly to obtain the funds
- ☐ The economy would likely grow faster
- ☐ People would likely save more
- ☒ **The risk associated with lending would increase**

Question No: 36 (Marks: 1) - Please choose one

If information in a financial market is asymmetric, this means:

- ☐ Borrowers and lenders have the same information
- ☐ Lenders lack any information
- ☐ Borrowers and lenders have perfect information
- ☒ **Borrowers would have more information than lenders**

Question No: 37 (Marks: 1) - Please choose one

Previously financial markets were located in which one of the following?

- ☒ **Coffee houses or Taverns**
- ☐ Stock exchanges
- ☐ Bazaar
- ☐ Both Coffee houses and Stock exchanges

Question No: 38 (Marks: 1) - Please choose one

Zero-Coupon Bonds are pure discount bonds since they sell at a price _____.

- ☐ Equal their face value
- ☒ **Below their face value**
- ☐ Above their face value
- ☐ None of the given options

Zero coupon bonds are bonds that do not pay interest during the life of the bonds.

Instead, investors buy zero coupon bonds at a deep discount from their face value, which is the amount a bond will be worth when it "matures" or comes due. When a zero coupon bond matures, the investor will receive one lump sum equal to the initial investment plus the imputed interest, which is discussed below.

Question No: 39 (Marks: 3)

How Financial System promotes economic efficiency? List down points.ple.

1. They provide the channel for transfer of funds between saver and borrowers
2. provide risk sharing like insurance
3. provide payments like bank accounts
4. Help those people which do not have enough capital to use profitable opportunity.

Question No: 40 (Marks: 3)

Briefly discuss different types of speculative grades of Long term ratings be PACRA.

Sepulative grade means there are possibility of credit risk.

Pacra has B class rating for them

BB shows that there is a possibility of credit risk in making.

B Highly speculative in nature. 'B' it shows that that significant credit risk is there, but a limited

margin of safety remains.

CCC, C,CC High default risk. Chances of deault is a real possibility.

Question No: 41 (Marks: 5)

Suppose that over the past 20 years, the average annual return on investments has been 12%. For each dollar invested at the beginning of the period, How much money would investors have at the end of 20 years?

$N = 20$

$I = 12\% \text{ or } .12$

$AMT = 1 \$$

$FV = ?$

$FV = amt * FVIF = [(1+i)^n - 1] / i$

$FVIF = [(1.12)^{20} - 1] / .12 = 72.05$

$FV = 1 * 72.05 = 72.05$

BR>

Question No: 1 (Marks: 1) - Please choose one

Which of the following are used to transfer resources from savers to investors and to transfer risk to those who best equipped it?

☐ Financial markets

☒ **Financial instruments**

☐ Financial institutions

☐ Banks

Reference by Stephen G Cecchetti

two ideas are emphasized: that financial instruments transfer resources from savers to investors, and that in doing so, they transfer risk to those best equipped to bear it

Question No: 2 (Marks: 1) - Please choose one

Which of the following are used to monitor and stabilize the economy?

- ☐ Stock exchanges
- ☐ Commercial Banks
- ☐ **Central Banks**
- ☐ Financial institutions

Question No: 3 (Marks: 1) - Please choose one

The reason for the government to get involved in the financial system is to:

- ☐ Protect investors
- ☐ Ensure the stability of the financial system
- ☐ Protect bank customers from monopolistic exploitation
- ☐ **All of the given options**

Question No: 4 (Marks: 1) - Please choose one

The one that you get from bank when you open your checking account is _____.

- ☐ **Debit card**
- ☐ Credit card
- ☐ Store value card
- ☐ Customer card

Question No: 5 (Marks: 1) - Please choose one

E money is really a form of which one of the following?

- ☐ Paper money
- ☐ Fiat money
- ☐ Government money
- ☐ **Private money**

Question No: 6 (Marks: 1) - Please choose one

All of the following are the components of M₂ EXCEPT?

- ☐ M₁
- ☐ Saving deposits
- ☒ **Travelers cheques**
- ☐ Mutual funds shares

M₂: Equals M₁ + savings deposits, time deposits less than \$100,000 and money market deposit accounts for individuals.

Travelers cheques are example of M₁

Question No: 7 (Marks: 1) - Please choose one

The Consumer Price Index (CPI):

- ☒ **Tends to overstate inflation due to substitution bias**
- ☐ Tends to understate actual inflation
- ☐ Is more accurate than the GDP deflator
- ☐ Is based on basket of goods that changes monthly with consumer expenditures

Question No: 8 (Marks: 1) - Please choose one

Considering the value of a financial instrument, the longer the time until the promised payment is made:

- ☒ **The less valuable is the promise to make it since time is valuable**
- ☐ The greater the risk, therefore the promise has greater value
- ☐ The more valuable is the promise to make it
- ☐ It has no effect on the value of instrument

Question No: 9 (Marks: 1) - Please choose one

Commissions paid to an insurance broker are an example of which of the following?

- ☐ Risk transfer
- ☐ Information asymmetry

_ Transaction costs

_ All of the given options

Question No: 10 (Marks: 1) - Please choose one

_____ are the economies central nervous system.

_ Financial Instruments

_ Financial Markets

_ Financial Institutions

_ Financial Companies

Financial markets are like the "central nervous system" of the economy, says Cecchetti's textbook.

Question No: 11 (Marks: 1) - Please choose one

Which one of the following is NOT an example of Centralized exchange?

_ New York Stock Exchange

_ NASDAQ

_ Large exchanges in London

_ Large exchanges in Tokyo

Question No: 12 (Marks: 1) - Please choose one

Which of the following market allowed networks of dealers that are connected electronically?

- ☐ New York Stock Exchange
- ☒ **NASDAQ**
- ☐ Large exchanges in London
- ☐ Large exchanges in Tokyo

Question No: 13 (Marks: 1) - Please choose one

Bonds that are issued by Government are called _____.

- ☐ Government bonds
- ☒ **Treasury bonds**
- ☐ Corporate bonds
- ☐ Callable bonds

Question No: 14 (Marks: 1) - Please choose one

What is relationship between interest rate and future value?

- ☐ Lower the interest rate higher will be the future value
- ☒ **Higher the interest rate higher will be the future value**
- ☐ Higher the interest rate lower will be the future value
- ☐ Interest rate has no effect on future value

Question No: 15 (Marks: 1) - Please choose one

The future value of \$100 left in a savings account earning 4.5% for two and a half years is best expressed by:

- ☐ $\$100(1.045)^{3/2}$
- ☐ $\$100(0.45)^{2.5}$
- ☒ **$\$100(1.045)^{2.5}$**
- ☐ $100 \times 2.5 \times (1.045)$

Question No: 16 (Marks: 1) - Please choose one

If the factor time (n) is longer then:

- ☒ **Present value will be lower**
- ☐ Present value will be higher
- ☐ Interest rate will be lower
- ☐ Time has no effect on present value

Reference: As we calculate PV through dividing the future value by the discount factor which is $(1+i)^n$ so if we increase the value of 'n' It will surely increase the discount factor which is the denominator and the greater the denominator the smaller will be the value of the fraction.

Question No: 17 (Marks: 1) - Please choose one

If at 5% interest rate, \$100 payment has a PV of \$90.70. Then what will be the PV value of \$200 payment? (Without applying formula).

- ☐ \$45.35
- ☐ \$272.1
- ☒ **\$181.4**
- ☐ \$362.8

Lets see the given is that 5% interest rate, $FV = \$100$, $PV = \$90.70$

Now calculate for 'n' that is no of years. As mentioned is that k without using formula so do not use the compounding formula. Use the simple one

$$FV = PV * i * n$$

$$n = FV / PV * i$$

$$n = 100 / 90.7 * 0.05$$

$$n = 22$$

We are asked to calculate PV if $FV = 200$

$$PV = FV / i * n$$

$$PV = 200 / 1.1$$

$$PV = \$181.4$$

Question No: 18 (Marks: 1) - Please choose one

Which of the following provides the greatest incentive to borrow?

- ☐ A high real interest rate
- ☒ **A low real interest rate**
- ☐ A high nominal interest rate
- ☐ A low nominal interest rate

Question No: 19 (Marks: 1) - Please choose one

Which of the following represents the fisher's equation?

- ☒ **Nominal interest rate = real interest rate + inflation**
- ☐ Nominal interest rate + inflation = real interest rate
- ☐ Nominal interest rate = real interest rate - inflation
- ☐ Nominal interest rate = real interest rate / inflation

Question No: 20 (Marks: 1) - Please choose one

What will be the result of the difference of real and nominal interest rate?

- ☐ The cost of borrowing
- ☒ **The effect of inflation**
- ☐ The price of bonds
- ☐ The return of bonds

nominal interest rate is equal to the real interest rate plus the expected rate of inflation

Question No: 21 (Marks: 1) - Please choose one

Which of the following statement is true for amortized loan?

- ☐ Payment includes interest and full amount of principal
- ☐ Payment includes only the interest
- ☒ **Payment includes both interest and some portion of the principal**
- ☐ Principal amount is paid fully in the periodic payments

These loans are amortized, meaning that the borrower pays off the principal along with

the interest over the life of the loan. Each payment includes both interest and some portion of the principal.

Question No: 22 (Marks: 1) - Please choose one

A zero coupon bond:

- ☐ Does not pay any coupon payments because the issuer is in default
- ☐ Pays coupons only once a year versus the usual twice a year
- ☒ **Promises a single future payment**
- ☐ Pays coupons only if the bond price is below face value

Question No: 23 (Marks: 1) - Please choose one

Which of the following best expresses the formula for determining the price of a U.S.

Treasury bill per \$100 of face value?

- ☐ $\$100(1 + i)$
- ☒ **$\$100 / (1 + i)^n$**
- ☐ $\$100 / (1 + i)$
- ☐ $1 + \$100 / (1 + i)^n$

Question No: 24 (Marks: 1) - Please choose one

If YTM equals the coupon rate the price of the bond is _____.

- ☐ Greater than its face value
- ☐ Lower than its face value
- ☒ **Equals to its face value**
- ☐ Insufficient information is given

Question No: 25 (Marks: 1) - Please choose one

The return on the bond is equal to which of the following?

- ☐ Coupon rate + rate of capital gains
- ☒ **Current yield + rate of capital gains**
- ☐ Coupon rate - rate of capital gains
- ☐ Current yield - rate of capital gains

Question No: 26 (Marks: 1) - Please choose one

A business cycle downturn shifts the bond supply to the:

- ☐ Right
- ☒ **Left**
- ☐ No change
- ☐ None of the given options

A business-cycle downturn shifts the bond supply to the left and the bond demand to the left. In this case the bond price can rise or fall, depending on which shift is greater. But interest rates tend to fall in recessions, so bond prices are likely to increase

Question No: 27 (Marks: 1) - Please choose one

In the long run, the yield curve tends to be which of the following?

- ☒ **Upward sloping**
- ☐ Downward sloping
- ☐ Nearly vertical
- ☐ Nearly horizontal

The yield curve's upward slope is due to long-term bonds being riskier than shortterm bonds

Question No: 28 (Marks: 1) - Please choose one

Yield curves show which of the followings?

- ☐ The relationship between bond interest rates (yields) and bond prices
- ☐ The relationship between liquidity and bond interest rates (yields)
- ☐ The relationship between risk and bond interest rates (yields)
- ☒ **The relationship between time to maturity and bond interest rates (yields)**

Question No: 29 (Marks: 1) - Please choose one

Mr. Ghazanfar wants to invest Rs.2,000 in a bond. If this bond is expected to receive a return of Rs.100 per month and a tax of Rs.3 will be deducted on this return. Then Mr. Ghazanfar made his decision by considering which of the following fact?

- ☐ He is attracted by Rs.100 return per month
- ☒ **He considers Rs.100 less deduction for tax i.e.Rs.97**
- ☐ He takes into consideration only the portion of tax which is deducted
- ☐ His decision will not be affected by any of the given factors

Question No: 30 (Marks: 1) - Please choose one

Mr. Ali has a bond, which is issued by local government of Punjab which is NOT true for situation?

- ☒ **He faces tax affects on return on bond**
- ☐ His bond can also be named as municipal bond
- ☐ He receive interest on that bond throughout life period of bond
- ☐ Default risk affects its return on bond

One of the primary reasons municipal bonds are considered separately from other types of bonds is their special ability to provide tax-exempt income. Interest paid by the issuer to bond holders is often exempt from all federal taxes, as well as state or local taxes depending on the state in which the issuer is located

Question No: 31 (Marks: 1) - Please choose one

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

- ☒ **Because only interest income they receive from bond is taxable**

- ☐ _ Because principal amount and interest income they receive from bond is taxable
- ☐ _ Because bond holders are taxpayers
- ☐ _ Because all bond is sold with a condition that tax will be deducted from its return

Question No: 32 (Marks: 1) - Please choose one

The expectations theory of the term structure assumes:

- ☐ _ **Buyers of bonds consider bonds of different maturities to be perfect substitutes**
- ☐ _ Markets for different maturity bonds are completely separate
- ☐ _ Buyers of bonds prefer bonds with shorter maturities
- ☐ _ Buyers of bonds prefer bonds with longer maturities

Question No: 33 (Marks: 1) - Please choose one

The fact that common stockholders are residual claimants means:

- ☐ The stockholders receive their dividends before any other residuals are paid
- ☒ **The stockholders receive the remains after everyone else is paid**
- ☐ The stockholders are paid any past due dividends before other claims are paid
- ☐ The common stockholders are responsible for all corporate debts

Question No: 34 (Marks: 1) - Please choose one

An index number is a valuable tool because:

- ☐ The number by itself provides all of the useful information needed
- ☒ **The index provides a meaningful measurement scale to calculate percentage changes**
- ☐ The index is more stable than the data it reflects
- ☐ It does not require any calculations to compute percentage changes

Question No: 35 (Marks: 1) - Please choose one

The Theory of Efficient Markets:

- ☒ **Allows for higher than average returns if the investor takes higher risk**
- ☐ Says Insider-information makes markets less efficient
- ☐ Rules out high returns due to chance
- ☐ Assumes people have equal luck

Question No: 36 (Marks: 1) - Please choose one

In a financial market where information is symmetric:

- ☒ **The same information would be known by both parties in a transaction**
- ☐ One party to a transaction knows information the other party does not
- ☐ The ability to obtain information is available to only one party
- ☐ All of the given options

Question No: 37 (Marks: 1) - Please choose one

Which of the following has created an opportunity for small investors to participate in

economic activity?

☐ **Mutual funds**

☐ Small corporations

☐ Stock brokers

☐ Small investors cannot take part in economic activity

Question No: 38 (Marks: 1) - Please choose one

Money once consisted of Gold and silver coins which were eventually replaced by which of the following?

☐ Plastic money

☐ **Paper money**

☐ Commodity money

☐ E-money

Question No: 39 (Marks: 3)

Briefly discuss different types of investment grades of Long term ratings be PACRA.

Answer : PACRA is the Pakistan Credit rating agency which rates different companies in Pakistan who offer bonds or stocks to investors. They rate companies independently to protect investors from companies who might default and not pay the investors. Based on their ratings given to different companies people who want to invest will know which companies to go for investment and which to avoid. The different types of investment grades given of long term ratings given by them are:

AAA : This is highest credit quality and has lowest expectation of risk

AA : Very high credit quality and very low expectation of risk

A: High credit quality and low expectation of risk

BB : Good credit quality and as of now there is low expectation of credit risk.

Question No: 40 (Marks: 3)

Money is accepted in economic exchange. Discuss.

Question No: 41 (Marks: 5)

"People differ in their opinions of how stocks should be valued". Discuss it.

Question No: 1 (Marks: 1) - Please choose one

Which of the following statement is true about the relationship between bond ,coupon payment and interest?

- ☐ Coupon payments fall, the interest rate falls, and Bond price will rise
- ☒ **Coupon payments rise, the interest rate falls, and Bond price will rise**
- ☐ Coupon payments fall, the interest rate falls, and Bond price will fall
- ☐ Coupon payments rise, the interest rate falls, and Bond price will fall

The value of the coupon bond rises when the yearly coupon payments rise and when the interest rate falls

- ☐ Lower interest rates mean higher bond prices and vice versa.

Question No: 2 (Marks: 1) - Please choose one

Which of the following institution takes direct deposit from customer and gives loan to customer directly?

- ☐ Zarai Tarkaytee Bank LTD
- ☐ Soneri Bank
- ☐ Khushali Bank
- ☒ **Credit union**

Question No: 3 (Marks: 1) - Please choose one

Which of the following is NOT true for financial institutions?

- ☐ It reduces the transaction cost
- ☐ It reduces the information cost
- ☐ It reduces the asymmetric information
- ☒ **It doesn't make long term loans**

Question No: 4 (Marks: 1) - Please choose one

Often a bank will require a loan officer to make personal visits on customers with loans outstanding. This is encouraged because:

- ☐ The bank worries about competitors trying to steal their customers

- ☐ The bank wants to make sure the business is still there
- ☐ The bank likely has excess funds available and hopes to make another loan to the business
- ☒ **This is an effective monitoring technique and should reduce moral hazard**

Question No: 5 (Marks: 1) - Please choose one

Della's Donut Shop goes out of business due to decreasing sales resulting from the dramatic increase in people on low carbohydrate diets. The decrease in business also results in Della's defaulting on the loan they have with the bank. This is an example of:

- ☐ Asymmetric information in financial markets
- ☒ **Lack of perfect information in financial markets**
- ☐ Moral hazard in financial markets
- ☐ Adverse selection

Question No: 6 (Marks: 1) - Please choose one

A bank can usually offer a saver a higher return for the same risk because:

- ☐ The bank can usually purchase assets at a higher cost than any one saver
- ☐ The bank can pool the resources of larger savers and purchase lower denominated assets
- ☒ **Economies of scale can be applied by the bank in its purchase of assets**
- ☐ None of the given options

Question No: 7 (Marks: 1) - Please choose one

Without the ability of financial intermediaries to pool the resources of small savers:

- ☐ Borrowers needing large amounts of money would find it less costly to obtain the funds
- ☐ The economy would likely grow faster
- ☐ People would likely save more
- ☒ **The risk associated with lending would increase**

Question No: 8 (Marks: 1) - Please choose one

The process of financial intermediation:

- ☐ Creates a net cost to an economy but is unavoidable
- ☐ Is used primarily in underdeveloped countries
- ☐ Is always used when a borrower needs to obtain funds
- ☒ **Increases the economy's ability to produce**

Question No: 9 (Marks: 1) - Please choose one

The Theory of Efficient Markets:

- ☐ Allows for higher than average returns if the investor takes higher risk
- ☐ Says Insider-information makes markets less efficient
- ☐ Rules out high returns due to chance
- ☐ Assumes people have equal luck

Question No: 10 (Marks: 1) - Please choose one

If we ignore risk, the dividend discount model says the fundamental price of a stock is simply:

☒ **The current dividend divided by the interest rate less the dividend growth rate**

☐ The annual growth rate of the dividend minus the interest rate divided by the current dividend

☐ The current dividend divided by the interest rate plus the dividend growth rate

☐ The current dividend divided by the dividend growth rate less the interest rate

Question No: 11 (Marks: 1) - Please choose one

Which statement shows the major difference between stocks and bonds?

☐ Bonds pay their owners dividends while stocks pay interest

☒ **Bonds pay their owners interest while stocks pay dividends**

☐ Interest on a bond is not guaranteed while dividends on stock are legally required

☐ Bonds represent ownership while stock represents debt

Question No: 12 (Marks: 1) - Please choose one

The concept of limited liability says a stockholder of a corporation:

- ☐ Is liable for the corporation's liabilities, but nothing more
- ☐ Cannot receive dividends that exceed their investment
- ☐ Cannot own more than five percent of any public corporation
- ☒ **Cannot lose more than their investment**

Question No: 13 (Marks: 1) - Please choose one

The liquidity premium theory suggests that yield curves should usually be:

- ☒ **Up-sloping**
- ☐ Inverted
- ☐ Flat
- ☐ Up-sloping through year 1, then flat thereafter

Question No: 14 (Marks: 1) - Please choose one

Which of the following statement is true about two bonds having same default rate and tax status but different maturity dates?

- ☐ It creates no effect on yield of bonds
- ☐ Both of them have different yield
- ☐ Liquidity risk factor should be taken into consideration
- ☐ It is impossible that default risk and tax status of two bonds are same

Question No: 15 (Marks: 1) - Please choose one

A business cycle downturn shifts the bond supply to the:

- ☐ Right
- ☒ **Left**
- ☐ No change
- ☐ None of the given options

A business-cycle downturn shifts the bond supply to the left and the bond demand to the left. In this case the bond price can rise or fall, depending on which shift is greater. But interest rates tend to fall in recessions, so bond prices are likely to increase.

Question No: 16 (Marks: 1) - Please choose one

An increase in the expected inflation shifts the bond demand to the _____

☒ **Right**

☐ Left

☐ No change

☐ None of the given options

Question No: 17 (Marks: 1) - Please choose one

An increase in the expected inflation shifts the bond supply to the _____

☒ **Right**

☐ Left

☐ No change

☐ None of the given options

Question No: 18 (Marks: 1) - Please choose one

Current yield did NOT measure which of the following?

- ☐ Return arises from coupon payment
- ☒ **Capital gain and loss**
- ☐ Return arises from bond holding till maturity
- ☐ All of the given options

Question No: 19 (Marks: 1) - Please choose one

Current yield is equal to which of the following?

- ☐ Price paid / yearly coupon payment
- ☐ Price paid *yearly coupon payment
- ☐ Yearly coupon payment / face value of bond
- ☒ **Yearly coupon payment / price paid**

Question No: 20 (Marks: 1) - Please choose one

The relationship between the price and the interest rate for a zero coupon bond is best described as _____.

- ☐ Volatile
- ☐ Stable
- ☒ **Inverse**
- ☐ No relationship

Question No: 21 (Marks: 1) - Please choose one

Which of the following statement is NOT true for consols?

- ☐ Consol offers only periodic interest payments
- ☐ Borrower never repays the principal
- ☒ **There are Government and as well as private consols**
- ☐ Price of a consol is the present value of all the future interest payments

There are no privately issued consols because only governments can credibly promise to make payments forever

Question No: 22 (Marks: 1) - Please choose one

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

- ☐ Spreading the risk
- ☐ Standard deviation
- ☒ **Hedging the risk**
- ☐ Variance

Hedging is the strategy of reducing overall risk by making two investments with opposing risks so that when one does poorly the other does well and vice versa.

Question No: 23 (Marks: 1) - Please choose one

The variance is generally less useful than the standard deviation on which of the following reasons?

- ☐ Variance is easier to calculate
- ☐ Variance is a measure of risk, whereas standard deviation is a measure of return
- ☒ **Variance isn't calculated in the same units as payoffs where as standard deviation is**
- ☐ Both are equally useful

Question No: 24 (Marks: 1) - Please choose one

Suppose a \$1000 investment has a fixed return of 5% per annum, which one of the following statement is NOT true for this investment?

- ☐ Its return can be calculated
- ☒ **It's a risky investment**
- ☐ It will give return annually
- ☐ Its future value is known

Question No: 25 (Marks: 1) - Please choose one

If a bond sells at a premium, where price exceeds face value, then we would expect to see:

- ☐ Market interest rate the same as the coupon rate
- ☐ Market interest rates above the coupon rate
- ☒ **Market interest rates below the coupon rate**
- ☐ None of the given options

Question No: 26 (Marks: 1) - Please choose one

The rule of 72 says that at 12% interest \$100 should become \$200 in about _____.

- ☒ **72 months**
- ☐ 100 months
- ☐ 12 years
- ☐ 8.2 years

Question No: 27 (Marks: 1) - Please choose one

A borrower is promised a \$100 payment (including interest) one year from today. If the lender has an 8% opportunity cost of money, he should be willing to accept what amount today?

- ☐ Rs.100.00
- ☐ Rs.108.20
- ☒ **Rs.92.59**
- ☐ Rs.96.40

Question No: 28 (Marks: 1) - Please choose one

_____ is the today's value of a payment that is promised to be made in the future.

- ☐ None of the given options
- ☐ Future value
- ☒ **Present value**
- ☐ Agreed value

The present value is the value today of a payment that is promised to be made in the future. It is the amount that must be invested today in order to realize a specific amount on a given future date

Question No: 29 (Marks: 1) - Please choose one

The future value of \$100 left in a savings account earning 4.5% for two and a half years is best expressed by:

- ☐ $\$100(1.045)^{3/2}$
- ☐ $\$100(0.45)^{2.5}$
- ☒ **$\$100(1.045)^{2.5}$**
- ☐ $100 \times 2.5 \times (1.045)$

Question No: 30 (Marks: 1) - Please choose one

What is relationship between interest rate and future value?

- ☐ Lower the interest rate higher will be the future value
- ☒ **Higher the interest rate higher will be the future value**
- ☐ Higher the interest rate lower will be the future value
- ☐ Interest rate has no effect on future value

Question No: 31 (Marks: 1) - Please choose one

Which of the following is a financial market in which a borrower obtains funds from a lender by selling newly issued securities?

- ☐ Secondary market
- ☒ **Primary market**
- ☐ Over the counter market

☐ Centralized market

In a primary market a borrower obtains funds from a lender by selling newly issued securities. Most of the action in primary markets goes on out of public view. Most companies use an investment bank, which will determine a price and then purchase the company's securities in preparation for resale to clients; this is called underwriting. We hear more about the secondary markets where people can buy and sell existing securities.

Question No: 32 (Marks: 1) - Please choose one

Repurchase agreements are:

☐ The most liquid of all money market instruments

☐ In use for hundreds of years

☐ Loans of deposits at the Federal Reserve

☒ **Short term loans with Treasury bills as collateral**

Question No: 33 (Marks: 1) - Please choose one

Considering the value of a financial instrument, the longer the time until the promised payment is made:

☒ **The less valuable is the promise to make it since time is valuable**

☐ The greater the risk, therefore the promise has greater value

☐ The more valuable is the promise to make it

☐ It has no effect on the value of instrument

Question No: 34 (Marks: 1) - Please choose one

A Financial Intermediary:

☐ Is an agency that guarantees a loan

☐ Is involved in direct finance

☒ **Would be used in indirect finance**

☐ None of the given options

Question No: 35 (Marks: 1) - Please choose one

The Consumer Price Index (CPI):

☒ **Tends to overstate inflation due to substitution bias**

- _ Tends to understate actual inflation
- _ Is more accurate than the GDP deflator
- _ Is based on basket of goods that changes monthly with consumer expenditures

Question No: 36 (Marks: 1) - Please choose one

All of the following are the components of M2 EXCEPT?

- ☐ M₁
- ☐ Saving deposits
- ☒ **Travelers cheques**
- ☐ Mutual funds shares

Question No: 37 (Marks: 1) - Please choose one

Which of the following statement truly represents the main difference between debit card and store value card?

- ☒ **Debit card is operated by ATM machine while Store value card doesn't**
- ☐ Debit card appearance is different from Store value card
- ☐ Debit card is not specific for user but store value card is specific
- ☐ Debit card is specific for user but store value card is not

Question No: 38 (Marks: 1) - Please choose one

In electronic transfer the most common method is to send money through a system maintained by Federal reserve called _____.

- ☐ Fedex
- ☒ **Fedwire**
- ☐ Fedtransfer
- ☐ Fedmoney

One wire transfer system used generally to transfer large dollar amounts instantaneously and which is provided by the US Federal Reserve System

Question No: 39 (Marks: 1) - Please choose one

The one that you get from bank when you open your checking account is _____.

- ☒ **Debit card**
- ☐ Credit card
- ☐ Store value card

_ Customer card

Question No: 40 (Marks: 1) - Please choose one

Mr. Ghazanfar has assets which when converted to cash, yield more currency then he needs to pay his debt. Which of the following statement best suites Mr. Ghazanfar?

_ Mr. Ghazanfar earns good income

_ Mr. Ghazanfar is a wealthy person

_ All of the given options

_ Mr. Ghazanfar has a lot of money at point in time

Question No: 41 (Marks: 10)

What are five core principles of financial system? Discuss it in detail.

Answer:

Financial System:

In finance, the financial system is the system that allows the transfer of money between savers and borrowers.

Five Core Principles of the Financial System & Details:

According to Mr. Brown, five core principles of Financial System, as outlined below:

1) First, transparency means bringing the so-called 'shadow banking system' into the regulatory system, not operating parallel to it. And across the world, financial institutions need to be supervised not on what name they give themselves - be it banks, hedge funds or investment funds - but on what they do.

We also need to ensure that all jurisdictions - such as offshore havens - and all important markets are covered by global supervision.

2) Second accountability means boardroom integrity, where boards of directors must understand and be held responsible for the risks they undertake. And credit rating agencies need to be free of conflicts of interest and be properly licensed.

3) Third, responsible risk taking means an end to the excesses from shorttermism; instead rewarding people for long term success not short term deals. But to be most effective it has to

be done internationally. A race to the bottom is in no one's interest. So we should agree a new international approach to pay and bonus structures.

4) The fourth principle of prudential regulation means taking into account the effect of a bank's capital, liquidity, solvency and conduct on the whole financial system.

5) Finally, he stated: "Lastly, international co-operation lies at the heart of all our changes - recognizing that financial institutions that work across borders need to be under cross border supervision too and regulators in one country must cooperate far more closely with regulators in other countries to create a global network of regulation that captures the risks to us all.

Other Principles of Financial are below:

- a. Facilitate Payments
- b. Channel Funds from Savers to Borrowers
- c. Enable Risk Sharing

Question No: 1 (Marks: 1) - Please choose one

Which of the following are without maturity dates?

☐ Zero coupon bonds

☐ Coupon securities

☒ **Consols**

☐ Preferred Bonds

Question No: 2 (Marks: 1) - Please choose one

Which of the following institution takes direct deposit from customer and gives loan to customer directly?

☐ ZaraiTarkaytee Bank LTD

☐ Soneri Bank

☐ Khushali Bank

☒ **Credit union**

Question No: 3 (Marks: 1) - Please choose one

Mr. Ghazanfar obtains a home improvement loan from Allied Bank. This loan is:

☐ Mr. Ghazanfar's asset and the bank's liability

☐ Mr. Ghazanfar 's asset, but the liability belongs to the bank's depositors

☒ **Mr. Ghazanfar 's liability and an asset for the bank**

☐ Both Mr. Ghazanfar's and bank's liability

Question No: 4 (Marks: 1) - Please choose one

Components of M1DO NOT include which one of the following?

☐ Currency in the hands of public

☐ Demand deposits

☒ **Small denominations time deposit**

☐ Checkable deposits

Question No: 5 (Marks: 1) - Please choose one

Which of the following has created an opportunity for small investors to participate in economic activity?

_Mutual funds

_ Small corporations

_ Stock brokers

_ Small investors cannot take part in economic activity

Question No: 6 (Marks: 1) - Please choose one

Which of the following is NOT an example of financial institutions?

_ Bank

_ Securities firm

_Stock exchange

_ Insurance company

Question No: 7 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

_ Free-riding

_Moral hazard

_Adverse selection

_ The Lemons market

Question No: 8 (Marks: 1) - Please choose one

In a financial market where information is symmetric:

_The same information would be known by both parties in a transaction

_One party to a transaction knows information the other party does not

_The ability to obtain information is available to only one party

_ All of the given options <http://vustudents.ning.com>

Question No: 9 (Marks: 1) - Please choose one

When stock prices reflect fundamental values:

- ☐ All investors will experience capital gains
- ☐ All companies will have an easier task of obtaining financing for investment projects
- ☒ **The allocation of resources will be more efficient**
- ☐ The overall level of the stock market should move higher continuously

Question No: 10 (Marks: 1) - Please choose one

An index number is a valuable tool because:

- ☐ The number by itself provides all of the useful information needed
- ☒ **The index provides a meaningful measurement scale to calculate percentage changes**
- ☐ The index is more stable than the data it reflects
- ☐ It does not require any calculations to compute percentage changes

Question No: 11 (Marks: 1) - Please choose one

The concept of limited liability says a stockholder of a corporation:

- ☐ Is liable for the corporation's liabilities, but nothing more
- ☐ Cannot receive dividends that exceed their investment
- ☐ Cannot own more than five percent of any public corporation
- ☒ **Cannot lose more than their investment**

Question No: 12 (Marks: 1) - Please choose one

Other things remaining equal, the liquidity premium theory is based upon the idea that

_____.

- ☐ Investors prefer long-term bonds
- ☒ **Investors prefer short-term bonds**
- ☐ Investors are indifferent between short-term and long-term bonds
- ☐ Investors prefer intermediate-term bonds

Question No: 13 (Marks: 1) - Please choose one

Which one of the following is NOT true for the expectation hypothesis?

- ☐ Risk free interest rate can be computed
- ☐ There is uncertainty in the future
- ☐ Identifying yield of bond today that will be available next year
- ☒ **It focuses on risk free interest rate and the risk premium**

Question No: 14 (Marks: 1) - Please choose one

A graph of the term structure with YTM on Y-axis and time to maturity on X-axis is called:

- ☐ Demand curve
- ☐ Supply curve
- ☒ **Yield curve**
- ☐ Leffer curve

Question No: 16 (Marks: 1) - Please choose one

The _____ are an assessment of the creditworthiness of the corporate issuer.

- ☐ Bond yield
- ☒ **Bond ratings**
- ☐ Bond risk
- ☐ Bond price

Question No: 17 (Marks: 1) - Please choose one

The bond rating of a security refers to which of the followings?

- ☐ The size of the coupon payment relative to the face value
- ☐ The return a holder is likely to receive
- ☒ **The likelihood the lender/borrower will be repaid by the borrower/issuer**
- ☐ The years until the bond matures

Question No: 18 (Marks: 1) - Please choose one

An increase in the expected inflation shifts the bond demand to the _____

- ☒ **Right**
- ☐ Left

☐ No change

☐ None of the given options

Question No: 19 (Marks: 1) - Please choose one

The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

☒ 6.25%

☐ 7.50%

☐ 8.00%

☐ 5.00%

Question No: 20 (Marks: 1) - Please choose one

If the annual interest rate is 6% (.06); the price of a one year Treasury bill would be:

☐ \$94.00

☒ \$94.33

☐ \$95.25

☐ \$96.10

Question No: 21 (Marks: 1) - Please choose one

The return on holding a bond till its maturity is called:

☐ Coupon rate

☒ Yield to maturity

☐ Current yield

☐ Fixed return

Question No: 22 (Marks: 1) - Please choose one

Which of the following best describes the relationship between Bond prices and yields?

☐ Move together directly

☐ Independent of each other

☒ Move together inversely

☐ Bond yields do not change since the coupon is fixed

Question No: 23 (Marks: 1) - Please choose one

Mr. A has a Treasury bill with a maturity period of 6 months where as Mr. B has a bond with a maturity period of 1 year. Which of the following statement is NOT true for this situation?

- ☐ Mr. A has paid less price for his bond than Mr. B
- ☒ **Mr. A and Mr. B is a holder of zero coupon bond**
- ☐ Mr. A will receive payment at the end of the maturity period
- ☐ Mr. B will receive the payment at the end of the maturity period

Question No: 24 (Marks: 1) - Please choose one

What is true relationship between return and risk?

- ☐ Lower the risk greater the return
- ☒ **Greater the risk greater the return**
- ☐ Greater the risk no change in return
- ☐ No relationship between them

Question No: 25 (Marks: 1) - Please choose one

Sum of all the probabilities should be equal to which one of the following?

- ☐ Zero
- ☒ **One**
- ☐ Two
- ☐ Three

Question No: 26 (Marks: 1) - Please choose one

_____ measures the probability of worst outcome in any investment project.

- ☐ Variance
- ☐ Standard deviation
- ☒ **Value at risk**
- ☐ Hedging

Question No: 27 (Marks: 1) - Please choose one

The variance is generally less useful than the standard deviation on which of the following reasons?

- ☐ Variance is easier to calculate
- ☐ Variance is a measure of risk, whereas standard deviation is a measure of return
- ☒ **Variance isn't calculated in the same units as payoffs where as standard deviation is**
- ☐ Both are equally useful

Question No: 28 (Marks: 1) - Please choose one

A credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called:

- ☐ Simple loan
- ☐ Fixed-payment loan
- ☒ **Coupon bond**
- ☐ Discount bond

Question No: 29 (Marks: 1) - Please choose one

Which of the following provides the greatest incentive to borrow?

☐ A high real interest rate

☒ A low real interest rate

☐ A high nominal interest rate

☐ A low nominal interest rate

Question No: 30 (Marks: 1) - Please choose one

An investment carrying a current cost of \$130,000 is going to generate \$70,000 of revenue for each of the next three years. To calculate the internal rate of return we need to:

☐ Calculate the present value of each of the \$70,000 payments and multiply these and set this equal to \$130,000

☐ Take the present value of \$210,000 for three years from now and set this equal to \$130,000

☒ Set the sum of the present value of \$70,000 for each of the next three years equal to \$130,000

☐ Subtract \$130,000 from \$210,000 and set this difference equal to the interest rate

Question No: 31 (Marks: 1) - Please choose one

A borrower is promised a \$100 payment (including interest) one year from today. If the lender has an 8% opportunity cost of money, he should be willing to accept what amount today?

☐ Rs.100.00

☐ Rs.108.20

☒ Rs.92.59

☐ Rs.96.40

Question No: 32 (Marks: 1) - Please choose one

Which one of the following is NOT an example of Centralized exchange?

☐ New York Stock Exchange

☐ NASDAQ

☒ Large exchanges in London

☐ Large exchanges in Tokyo

Question No: 33 (Marks: 1) - Please choose one

Financial intermediaries provide small lender-savers all of the following advantages

EXCEPT:

☒ **Greater liquidity**

☐ Lower transaction cost

☐ Lower risk

☐ Higher return

Question No: 34 (Marks: 1) - Please choose one

The shares of McDonald Corporation stock are examples of:

☒ **A standardized financial instrument**

☐ A standardized financial liability instrument

☐ A non-standardized financial instrument

☐ A means of payment

Question No: 35 (Marks: 1) - Please choose one

Which of the following statements is NOT correct?

☒ **Banks are financial intermediaries**

☐ Financial intermediary involves in giving loan and accepting deposit

☐ All financial intermediaries are insurance companies

☐ Financial intermediaries increase the efficiency of the economy

Question No: 36 (Marks: 1) - Please choose one

Economic research shows:

☐ There is a strong inverse correlation between financial market development and economic growth

☐ There is weak relation between financial market development and economic growth around 0.25

☐ **There is a relatively strong positive correlation between financial market development and economic growth**

☐ There isn't any correlation between financial market development and economic growth

Question No: 37 (Marks: 1) - Please choose one

Which of the following statements is correct?

☐ If you can buy the same goods this year as you bought last year with less money the money supply decreased.

☐ **To purchase the same goods today that were purchased one year ago requires more money, there must have been inflation**

☐ To purchase the same goods today as one year ago requires less money, the money supply must have increased

☐ To purchase the same goods today that were purchased one year ago requires the same amount of money, there must have been inflation

Question No: 38 (Marks: 1) - Please choose one

The one that you get from bank when you open your checking account is _____.

☐ **Debit card**

☐ Credit card

☐ Store value card

☐ Customer card

Question No: 39 (Marks: 1) - Please choose one

Wealth can be held in number of other forms but we use to hold money because of which one of the following reason?

☐ It is the only mode of payment

☐ It is an asset

☐ **It is most liquid**

☐ It is the only store of value

Question No: 40 (Marks: 1) - Please choose one

Which of the following are used to monitor and stabilize the economy?

- _ Stock exchanges
- _ Commercial Banks
- _Central Banks**
- _Financial institutions

Question No: 41 (Marks: 10)

“A financial instrument is a real or virtual document representing a legal agreement involving some sort of monetary value.” Discuss further on financial instruments by giving examples. Point out some of its uses and important characteristics.

ANSWER: Financial Instrument: Financial instrument is a written obligation of one party to transfer something of value to another party at a future date under certain conditions.

- ☐ By written obligation we mean that it is enforced by the government and this obligation is an important feature of a financial instrument.
- ☐ The party here can be an individual, company or a government
- ☐ Future date can be specified or when some event occurs.

Examples: Stocks, bonds, insurance etc are examples of financial instruments.

Characteristics of Financial Instruments: There are certain characteristics of financial instruments.

1. Standardization: It is a standardized agreement which enables reduction in costs of complexity. So because of this most financial instruments today are similar.
2. Communicate Information: Provide certain important information about the issuer which otherwise would have been difficult to gather for the lenders.

Value of Financial Instruments: The value of financial instruments depends on various factors.

- ☐ Size: Larger the promised payment more valuable is the financial instrument.
- ☐ Timing: The sooner the payment is made increases the value of financial instrument.
- ☐ Risk: A financial instrument is more valuable if there are greater possibilities that payment will be made.

□ Circumstances: Payments made when needed the most makes the financial instrument more valuable. <http://vustudents.ning.com>

Uses of Financial Instruments:

□ Store Of Value:

Stocks: The stock holder is a part owner of the firm and receives part of its profits.

Bonds: A form of loan which promises to make repayment in future dates.

Bank loans: Borrowers obtains resources from lenders in exchange of promised payments.

□ Transfer of Risk:

Insurance: Takes premium to assure payment under particular conditions (accident, death etc)

Future contracts: It is an agreement to exchange fixed quantity of a commodity or an asset at a fixed price. Transfer risk of price fluctuations.

Options: Gives holder the right to purchase fixed quantity of an underlying asset at predetermined price within a specific period.

FINALTERM EXAMINATION

Spring 2009

MGT411- Money & Banking (Session - 3)

Time: 120 min

Marks: 81

Question No: 1 (Marks: 1) - Please choose one

Which of the following is the final mode of payment?

- ▶ **Money**
- ▶ ATM
- ▶ Cheque
- ▶ Yet to discover

Question No: 2 (Marks: 1) - Please choose one

Which of the following statement truly represents the main difference between debit card and store value card?

- ▶ Debit card is operated by ATM machine while Store value card doesn't
- ▶ Debit card appearance is different from Store value card
- ▶ Debit card is not specific for user but store value card is specific
- ▶ Debit card is specific for user but store value card is not

Question No: 3 (Marks: 1) - Please choose one

Which of the following statements is correct?

- ▶ If you can buy the same goods this year as you bought last year with less money the money supply decreased.
- ▶ **To purchase the same goods today that were purchased one year ago requires more money, there must have been inflation**
- ▶ To purchase the same goods today as one year ago requires less money, the money supply must have increased

► To purchase the same goods today that were purchased one year ago requires the same amount of money, there must have been inflation

Question No: 4 (Marks: 1) - Please choose one

Which of the following is the difference that lies between the options and futures?

- Options is not binding whereas future is binding
- **Futures carry risks but Options didn't carry risk**
- Centralized clearinghouses guarantee futures but not options contracts
- There is no difference between options and futures

Question No: 5 (Marks: 1) - Please choose one

Which of the following describes the general formula for the calculation of the compound interest?

- $FV = PV / (1+i)^n$
- $FV = PV / (1-i)^n$
- **$FV = PV * (1+i)^n$**
- $FV = PV * (1-i)^n$

Question No: 6 (Marks: 1) - Please choose one

What is true about the relationship between standard deviation and risk?

- **Greater the standard deviation greater will be the risk**
- Greater the standard deviation lower will be the risk
- Greater the standard deviation risk will be remained the same

- ▶ No relation between them

Question No: 7 (Marks: 1) - Please choose one

Current yield is equal to which of the following?

- ▶ Price paid / yearly coupon payment
- ▶ Price paid *yearly coupon payment
- ▶ Yearly coupon payment / face value of bond
- ▶ **Yearly coupon payment / price paid**

Question No: 8 (Marks: 1) - Please choose one

The risk premium of a bond will:

- ▶ Higher for investment-grade bonds than for high-yield bonds
- ▶ Positive but small if the risk of default is zero
- ▶ Decrease when the default risk rises
- ▶ **Increase when the risk of default rises**

Question No: 9 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

- ▶ **Free-riding**
- ▶ Moral hazard
- ▶ Adverse selection
- ▶ The Lemons market

Question No: 10 (Marks: 1) - Please choose one

Which of the following does not include in marketable securities?

- ▶ Common stocks
- ▶ Bonds of the U.S. Treasury
- ▶ Treasury Bills
- ▶ **Non transaction deposits**

Question No: 11 (Marks: 1) - Please choose one

_____ is a component of the liability side of the commercial bank's balance sheet.

- ▶ **Deposits**
- ▶ Loans
- ▶ Securities
- ▶ All of the given options

Question No: 12 (Marks: 1) - Please choose one

_____ A
stand by letter of credit is a form of:

- ▶ Loan
- ▶ Insurance
- ▶ Security
- ▶ **Deposits**

Question No: 13 (Marks: 1) - Please choose one

Funds of depository institution are primarily used in which of the following?

- ▶ Corporate bonds, Government bonds, Stocks, Mortgage
- ▶ **Cash, Loan, Securities**
- ▶ Stocks, Government bonds, corporate bonds, commercial papers
- ▶ Commercial papers, Bonds

Question No: 14 (Marks: 1) - Please choose one

Securities firms include _____.

- ▶ Brokerage firms
- ▶ Investment banks
- ▶ Mutual fund companies
- ▶ **All of the given options**

Question No: 15 (Marks: 1) - Please choose one

_____ is the combination of the term life insurance and savings account.

- ▶ Property insurance
- ▶ Health insurance
- ▶ Whole life insurance
- ▶ **Casualty insurance**

Question No: 16 (Marks: 1) - Please choose one

Which of the following is a Primary source of funds of Finance company?

- ▶ Bonds
- ▶ Policy benefits to be paid out to futures
- ▶ **Loan guarantees**
- ▶ Shares sold to customers

Question No: 17 (Marks: 1) - Please choose one

What matters most during a bank run is _____.

- ▶ **The liquidity of the bank**
- ▶ The solvency of the bank
- ▶ The number of depositors
- ▶ Safety of bank

Question No: 18 (Marks: 1) - Please choose one

Khushhali bank is:

- ▶ A Finance company
- ▶ A Securities firm
- ▶ **A Government sponsored enterprise**
- ▶ An insurance company

Question No: 19 (Marks: 1) - Please choose one

Under the purchase and assumption method of dealing with a failed bank, the FDIC _____.

- ▶ Sells the failed bank to the Federal Reserve
- ▶ Finds another bank to take over the insolvent bank
- ▶ Takes over the day to day management of the bank
- ▶ Sells off the profitable loans of the failed bank in an open auction

Question No: 20 (Marks: 1) - Please choose one

_____ On which of the following success of monetary policy depends upon?

- ▶ It may be on the chance or by luck
- ▶ The institutional environment
- ▶ Competent people in responsible positions
- ▶ **Both the institutional environment and Competent people in responsible positions**

Question No: 21 (Marks: 1) - Please choose one

_____ For the Federal Reserve, the largest liability on their balance sheet is _____.

- ▶ Non-bank currency
- ▶ **Reserves**
- ▶ Government accounts

- ▶ Treasury certificates

Question No: 22 (Marks: 1) - Please choose one

_____ An open market purchase of U.S. Treasury securities by the Fed will cause the Fed's balance sheet to show _____.

- ▶ A decrease in the asset of securities and a decrease in the liability of reserves
- ▶ **A decrease in the liability of reserves**
- ▶ No change in the size of balance sheet except composition of assets
- ▶ An increase in the asset category of securities and the liability category of reserves

Question No: 23 (Marks: 1) - Please choose one

_____ Which one of the following is a primary policy tool of the Central Bank?

- ▶ Inflation rate
- ▶ Open market operations
- ▶ Interest rate
- ▶ **Money supply**

Question No: 24 (Marks: 1) - Please choose one

_____ is the strategy of buying and selling government securities:

- ▶ **Open market operations**
- ▶ Reserve requirement
- ▶ Discount loans

- ▶ Cash withdrawal

Question No: 25 (Marks: 1) - Please choose one

_____ The _____ shows how the quantity of money is related to the monetary base:

- ▶ **Money multiplier**
- ▶ Deposit expansion multiplier
- ▶ Fiscal multiplier
- ▶ Tax multiplier

Question No: 26 (Marks: 1) - Please choose one

_____ Which of the following is correct?

- ▶ **Monetary base = Currency + Reserves**
- ▶ Monetary base = Currency + Deposits
- ▶ Monetary base = Loans + Reserves
- ▶ Monetary base = Required reserves + Deposits

Question No: 27 (Marks: 1) - Please choose one

_____ The central bank makes which type of loans?

- ▶ Primary credit
- ▶ Secondary credit
- ▶ Seasonal credit

- All of the given options

Question No: 28 (Marks: 1) - Please choose one

Which of the following expresses the equation of exchange?

- $MV = PY$
- $MV = Y$
- $MY = PV$
- $MP = VY$

Question No: 29 (Marks: 1) - Please choose one

_____ If the liquidity of alternative assets falls, the demand for money_____.

- Increases
- Decreases
- Remains unchanged
- None of the given option

Question No: 30 (Marks: 1) - Please choose one

Interest rate risk arises as a result of which one of the following consequences?

- It arises when banks make additional profit by using derivatives
- It arises when loan is not repaid
- It arises because of sudden demands of funds
- It arises when two sides of the balance sheet do not match up

Question No: 31 (Marks: 1) - Please choose one

_____ A
U.S. institution, United Bank, buys some financial assets denominated in British pounds. Fluctuations in the dollar value of the pound will give rise to:

- ▶ Credit risk
- ▶ Operational risk
- ▶ **Foreign exchange risk**
- ▶ Country risk

Question No: 32 (Marks: 1) - Please choose one

_____ High State Bank purchases some U.S. Treasury bonds. We would view such bonds as being free of:

- ▶ Credit risk
- ▶ Interest rate risk
- ▶ Reinvestment risk
- ▶ **All of the given options**

Question No: 33 (Marks: 1) - Please choose one

_____ In
general, if the financial institution's balance sheet displays assets and liabilities that are "mis-matched" to a significant degree, the institution faces:

- ▶ Operational risk
- ▶ Sovereign risk
- ▶ **Interest rate risk**
- ▶ Liquidity risk

Question No: 34 (Marks: 1) - Please choose one

_____ The idea that central banks should be independent of political pressure is an idea that:

- ▶ **Is included in Federal Reserve Act in 1913**
- ▶ Is relatively new
- ▶ Every central bank was founded upon
- ▶ Became quite popular in the early 1900's

Question No: 35 (Marks: 1) - Please choose one

_____ Currency-to-deposit ratio is a factor that affects the quantity of money. This factor is controlled by which of the following?

- ▶ Central bank
- ▶ Bank regulators
- ▶ Commercial banks
- ▶ **Non bank public**

Question No: 36 (Marks: 1) - Please choose one

_____ The real purchasing power of money in circulation is expressed as which of the following?

- ▶ **MV/PY**
- ▶ M/P
- ▶ PY
- ▶ M/Y

Question No: 37 (Marks: 1) - Please choose one

_____ The FOMC targets the federal funds rate, but if they are going to alter the course of the economy they must influence which one of the following?

- ▶ The money growth rate as well
- ▶ The long-term nominal interest rate as well
- ▶ The real interest rate as well
- ▶ The nominal exchange rate as well

Question No: 38 (Marks: 1) - Please choose one

_____ Inflation in the long run would be determined by which one of the following?

- ▶ The exchange rate
- ▶ Aggregate demand
- ▶ **The rate of money growth**
- ▶ Aggregate supply

Question No: 39 (Marks: 1) - Please choose one

_____ According to real business cycle theory, aggregate economic fluctuations are caused by changes in:

- ▶ The money supply
- ▶ Fiscal policy
- ▶ High unemployment
- ▶ The natural rate level of output

Question No: 40 (Marks: 1) - Please choose one

Which of the following represents the history of money uptill the modern age?

- ▶ **Gold/silver coins**____ **Paper Currency**____ **Electronic Fund Transfer**
- ▶ Paper Currency____ Gold/Silver coins____ Electronic Fund Transfer
- ▶ Electronic Fund Transfer____ Paper Currency ____ Gold/silver coins
- ▶ Gold/silver coins____ Electronic Fund Transfer____ Paper currency

Question No: 41 (Marks: 1) - Please choose one

Zero-Coupon Bonds are pure discount bonds since they sell at a price _____.

- ▶ Equal their face value
- ▶ **Below their face value**
- ▶ Above their face value
- ▶ None of the given options

Question No: 42 (Marks: 1) - Please choose one

_____ pool money from individuals and invest in different portfolio and return is distributed in different share holders.

- ▶ Mutual funds
- ▶ Investment banks
- ▶ Brokers
- ▶ **Finance companies**

Question No: 43 (Marks: 3)

What is the source of Trading risk, Credit risk and Liquidity risk?

Question No: 44 (Marks: 3)

"Monetary policy can be used to stabilize economy".Discuss.

Question No: 45 (Marks: 3)

Give an account of different components of aggregate demand?

Question No: 46 (Marks: 5)

Differentiate between the Foreign exchange risk and the Sovereign risk.

Question No: 47 (Marks: 5)

Central bank can control the size of the monetary base. What are central bank monetary policy tools? Name them.

Question No: 48 (Marks: 10)

a) Central bank performs several functions. Describe how each tool of monetary policy is used in fulfilling each of those roles.

b) In 1992, the Bank of Canada eliminated the reserve requirement entirely. What do you think would happen if the State Bank of Pakistan followed the same course? Alternatively, suppose that following an act of Parliament, the State Bank of Pakistan started to pay interest on required reserves. Would the change have an impact on the market for reserves?

Question No: 49 (Marks: 10)

Explain how and why the components of aggregate demand depend on the real interest rate. Be sure to distinguish between the real and nominal interest rates, and explain why the distinction matters.

It is helpful to think of aggregate demand as having two parts, one that is sensitive to real

interest rate changes and one that is not

f Investment is the most important of the components of aggregate demand that are sensitive to

changes in the real interest rate.

Output (Y)

Inflation (π)

Aggregate Demand Curve Money & Banking – MGT411

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☐ An investment can be profitable only if its internal rate of return exceeds the cost of borrowing

☐ Consumption and net exports also respond to the real interest rate;

f Consumption decisions often rely on borrowing, and the alternative to consumption is saving

(higher rates mean more saving).

f As for net exports, when the real interest rate in a country rises, her financial assets become

attractive to foreigners, causing local currency to appreciate, which in turn means more imports

and fewer exports (lower net exports)

f While changes in real interest rate may have an impact on the government's budget by raising

the cost of borrowing, the effect is likely to be small and ignorable.

f Thus, considering consumption, investment, and net exports, an increase in the real interest rate

reduces aggregate demand (the effect on the 4th component, government spending, is small

Real and Nominal Interest Rates

So far we have been computing the present value using nominal interest rates (i), or interest

rates expressed in current-dollar terms

But inflation affects the purchasing power of a dollar, so we need to consider the real interest

rate (r), which is the inflation-adjusted interest rate.

The Fisher equation tells us that the nominal interest rate is equal to the real interest rate plus

the expected rate of inflation

Fisher Equation:

FINALTERM EXAMINATION**Spring 2009****MGT411- Money & Banking (Session - 2)****Question No: 1 (Marks: 1) - Please choose one**

Investing was an activity reserved for only _____ in the past.

- ▶ Business men
- ▶ Traders
- ▶ **Wealthy people**
- ▶ Stock brokers

Financial Instruments

- ☐ To transfer wealth from savers to borrowers
- ☐ To transfer risk to those best equipped to bear it.
- ☐ Once investing was an activity reserved for the wealthy

Question No: 2 (Marks: 1) - Please choose one

Financial instruments are evolved just as _____.

- ▶ **Currency**
- ▶ Stock
- ▶ Bond
- ▶ Commodity

Question No: 3 (Marks: 1) - Please choose one

Which of the following market allowed networks of dealers that are connected electronically?

- ▶ New York Stock Exchange
- ▶ **NASDAQ**
- ▶ Large exchanges in London
- ▶ Large exchanges in Tokyo

Question No: 4 (Marks: 1) - Please choose one

If at 5% interest rate, \$100 payment has a PV of \$90.70. Then what will be the PV value of \$200 payment? (Without applying formula).

- ▶ \$45.35
- ▶ \$272.1
- ▶ **\$181.4**
- ▶ \$362.8

Question No: 5 (Marks: 1) - Please choose one

_____ measures the probability of worst outcome in any investment project.

- ▶ Variance
- ▶ Standard deviation
- ▶ **Value at risk**
- ▶ Hedging

Value at Risk (VaR)

Sometimes we are less concerned with the spread of possible outcomes than we are with the value of the worst outcome. To assess this sort of risk we use a concept called "value at risk."

Value at risk measures risk at the maximum potential loss.

In its formal definition, value at risk is the worst possible loss over a specific time horizon, at a given probability.

Question No: 6 (Marks: 1) - Please choose one

If the annual interest rate is 6% (.06); the price of a one year Treasury bill would be:

- ▶ \$94.00
- ▶ **\$94.33**
- ▶ \$95.25
- ▶ \$96.10

[100/1.06](#)

Question No: 7 (Marks: 1) - Please choose one

Which of the following best describes default risk?

- ▶ **The chance the issuer will be unable to make interest payments or repay principal**
- ▶ The chance the issuer will retire the debt early
- ▶ The chance the issuing firm will be sold to another firm
- ▶ The chance the issuer will sell more debt

Question No: 8 (Marks: 1) - Please choose one

Mr. Ghazanfar wants to invest Rs.2,000 in a bond. If this bond is expected to receive a return of Rs.100 per month and a tax of Rs.3 will be deducted on this return. Then Mr. Ghazanfar made his decision by considering which of the following fact?

- ▶ He is attracted by Rs.100 return per month
- ▶ **He considers Rs.100 less deduction for tax i.e.Rs.97**
- ▶ He takes into consideration only the portion of tax which is deducted
- ▶ His decision will not be affected by any of the given factors

Question No: 9 (Marks: 1) - Please choose one

Calculate tax implication on Bond yields. Consider a one year bond face value Rs.100 (issued by Government) with coupon rate of 6%.What is the income of bond that is received at maturity? (Tax rate is 30%).

- ▶ **Rs.6**
- ▶ Rs.1.80
- ▶ Rs.4.20
- ▶ Rs.7.80

Government bonds are not taxable.

Question No: 10 (Marks: 1) - Please choose one

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

- ▶ **Because only interest income they receive from bond is taxable**
- ▶ Because principal amount and interest income they receive from bond is taxable
- ▶ Because bond holders are taxpayers
- ▶ Because all bond is sold with a condition that tax will be deducted from its return

Question No: 11 (Marks: 1) - Please choose one

The fact that common stockholders are residual claimants means:

- ▶ The stockholders receive their dividends before any other residuals are paid
- ▶ **The stockholders receive the remains after everyone else is paid**
- ▶ The stockholders are paid any past due dividends before other claims are paid
- ▶ The common stockholders are responsible for all corporate debts

Question No: 12 (Marks: 1) - Please choose one

If a bank sells off all of its assets and pays all of its liabilities the remaining amount would be _____.

- ▶ Net profit
- ▶ Net worth
- ▶ Reserves
- ▶ Excess reserves

Net worth is the owner's stake in the firm, the value of the firm minus the value of its liabilities

Question No: 13 (Marks: 1) - Please choose one

_____ measures how efficiently a bank uses its assets.

- ▶ **Return on Assets**
- ▶ Return on Equity

- ▶ Bank Capital
- ▶ Bank Profitability

Question No: 14 (Marks: 1) - Please choose one

The procedure that estimates the interest rate sensitivity of a bank's assets and liabilities is called _____.

- ▶ Managing credit risk
- ▶ **Gap analysis**
- ▶ Trading risk minimization
- ▶ Managing liquidity risk

Question No: 15 (Marks: 1) - Please choose one

An insurance company provides liability insurance to a bakery protecting the owner against claims from customers. One area of coverage is protection against food poisoning claims. The insurance company may periodically send an employee into the bakery to observe food preparation and food storage processes. The insurance company is trying to avoid which of the following?

- ▶ Paying claims
- ▶ Adverse selection
- ▶ **Moral hazard**
- ▶ Transaction cost

Question No: 16 (Marks: 1) - Please choose one

Which of the following is not a function of Investment banks?

- ▶ Research and advice for investors
- ▶ Immediate sale of assets
- ▶ **Access to payment system**
- ▶ Access to spectrum of assets allowed diversification

Question No: 17 (Marks: 1) - Please choose one

Funds of depository institution are primarily used in which of the following?

- ▶ Corporate bonds, Government bonds, Stocks, Mortgage
- ▶ **Cash, Loan, Securities**
- ▶ Stocks, Government bonds, corporate bonds, commercial papers
- ▶ Commercial papers, Bonds

Question No: 18 (Marks: 1) - Please choose one

All of the following are the primary sources of funds for depository institutions EXCEPT?

- ▶ Checkable deposits
- ▶ Savings and time deposits
- ▶ Short term loans
- ▶ **Borrowings from other banks**

Question No: 19 (Marks: 1) - Please choose one

Which one of the following refers to the risk assessment and loss reimbursement guarantee by the individual risk experts of the relevant field?

► **Underwriting process**

- Insurance process
- Research process
- None of the given options

Question No: 20 (Marks: 1) - Please choose one

The "trade off" which can impact bank's likelihood of failure is described as:

- The larger the bank in asset size the more likely it will fail
- The more competitive the banking environment, the more likely the bank will fail
- **The more profitable the bank, the less liquid the bank will be and the more likely it will fail**
- The greater the regulation from government the more likely the bank will fail

Question No: 21 (Marks: 1) - Please choose one

On which of the following success of monetary policy depends upon?

- It may be on the chance or by luck
- The institutional environment
- Competent people in responsible positions
- Both the institutional environment and Competent people in responsible positions

Question No: 22 (Marks: 1) - Please choose one

A central bank's balance sheet would categorize each of the following as liabilities EXCEPT:

- ▶ Currency
- ▶ Gold
- ▶ Reserves
- ▶ Accounts of the commercial banks

Question No: 23 (Marks: 1) - Please choose one

If the required reserve rate is ten percent and banks do not hold any excess reserves and there are no changes in currency holdings, a \$2 million open market purchase by the Fed will result in deposit creation of:

- ▶ \$20 million
- ▶ \$18 million
- ▶ \$2 million
- ▶ \$1,800,000

Question No: 24 (Marks: 1) - Please choose one

If required reserves are expressed by RR ; the required reserve rate by r_D and deposits by D ; the simple deposit expansion multiplier is expressed as:

- ▶ $r_D D$
- ▶ $(1/r_D) D$
- ▶ $1/r_D$
- ▶ r_D times 10

Question No: 25 (Marks: 1) - Please choose one

The _____ shows how the quantity of money is related to the monetary base:

- ▶ Money multiplier
- ▶ Deposit expansion multiplier
- ▶ Fiscal multiplier
- ▶ Tax multiplier

Question No: 26 (Marks: 1) - Please choose one

Central banks today place most of their focus on which of the following?

- ▶ The unemployment rate
- ▶ The quantity of M2
- ▶ Interest rates
- ▶ Controlling the size of the money multiplier

Question No: 27 (Marks: 1) - Please choose one

Which of the following statement is true regarding monetary policy tools?

- ▶ The Fed currently uses a quantity tool for monetary policy
- ▶ The required reserve rate is the most easily observable tool
- ▶ The federal funds rate is not the best tool because it fails the controllable test of a good monetary policy tool.
- ▶ The central banks cannot set a quantity and a price tool simultaneously

Question No: 28 (Marks: 1) - Please choose one

Inflation can be thought of as which of the following?

- ▶ A decrease in the price of money
- ▶ An increase in the price of money
- ▶ No change in the price of money, just in the supply of money
- ▶ No change in the price of money, just in the demand for money

Question No: 29 (Marks: 1) - Please choose one

If a central bank sets an explicit inflation target it would require which one of the following?

- ▶ More emphasis on the interest rate target and less on a money target
- ▶ To shift their focus entirely to a nominal interest rate target
- ▶ Willingness to live with more volatility in the interest rate
- ▶ To give up control of targeting the monetary base

Question No: 30 (Marks: 1) - Please choose one

Inflation in the long run would be determined by which one of the following?

- ▶ The exchange rate
- ▶ Aggregate demand

- ▶ The rate of money growth
- ▶ Aggregate supply

Question No: 31 (Marks: 1) - Please choose one

Liquidity is the risk that arises as a result of which one of the following consequences?

- ▶ It arises because of sudden demands of funds
- ▶ It arises when two sides of the balance sheet do not match up
- ▶ It arises when banks make additional profit by using derivatives
- ▶ It arises when loan is not repaid

Question No: 32 (Marks: 1) - Please choose one

For securities issued across international borders, changes in the legal and governmental environment can make it difficult for the investor to collect. Such a risk would be termed as:

- ▶ Credit risk
- ▶ Sovereign risk
- ▶ Insolvency risk
- ▶ Interest rate risk

Question No: 33 (Marks: 1) - Please choose one

In general, if the financial institution's balance sheet displays assets and liabilities that are "mis-matched" to a significant degree, the institution faces:

- ▶ Operational risk
- ▶ Sovereign risk

- ▶ Interest rate risk
- ▶ Liquidity risk

Question No: 34 (Marks: 1) - Please choose one

The idea that central banks should be independent of political pressure is an idea that:

- ▶ Is included in Federal Reserve Act in 1913
- ▶ Is relatively new
- ▶ Every central bank was founded upon
- ▶ Became quite popular in the early 1900's

Question No: 35 (Marks: 1) - Please choose one

One thing that is true about economic policy in the U.S. is that:

- ▶ Monetary and Fiscal policy often times conflict
- ▶ Fiscal and monetary policy never conflict
- ▶ Monetary policy ultimately controls fiscal policy
- ▶ Fiscal policy ultimately controls monetary policy

Question No: 36 (Marks: 1) - Please choose one

Which of the following is the component of monetary base?

- ▶ Currency in the hands of the public
- ▶ Reserves of the banking system
- ▶ Vault cash plus deposits at the central bank
- ▶ All of the given options

Question No: 37 (Marks: 1) - Please choose one

In the long run, if we ignore changes in velocity then which of the following statement is true?

- ▶ Inflation will equal money growth less the growth in potential output
- ▶ Inflation will equal the rate of money growth
- ▶ Inflation will be zero
- ▶ Inflation will equal money growth plus the growth in potential output

Question No: 38 (Marks: 1) - Please choose one

Complete crowding-out will occur if:

- ▶ The money supply rises when Government purchases increases
- ▶ An increase in Government purchases does not change Consumption
- ▶ Taxes rise when Government purchases increases
- ▶ An increase in Government purchases causes an equal fall in Consumption, Investment, and Net Exports

Question No: 39 (Marks: 1) - Please choose one

An increase in the money supply will do all the following except:

- ▶ Increase real GDP in the short-run
- ▶ Increase Price level in the long-run
- ▶ Increase Price level in the short-run
- ▶ Increase real GDP in the long-run

Question No: 40 (Marks: 1) - Please choose one

An increase in capital stock, which shifts long-run supply out, will:

- ▶ Lower prices and will not change output
- ▶ Increase prices and will not change output
- ▶ Lower prices and will increase output
- ▶ Increase prices as well as output

Question No: 41 (Marks: 1) - Please choose one

Components of M_1 **DO NOT** include which one of the following?

- ▶ Currency in the hands of public
- ▶ Demand deposits
- ▶ Small denominations time deposit
- ▶ Checkable deposits

Question No: 42 (Marks: 1) - Please choose one

Which one of the following is the unique problem that banks face?

- ▶ They hold illiquid assets to meet liquid liabilities
- ▶ They hold liquid assets to meet illiquid liabilities
- ▶ They hold liquid assets to meet liquid liabilities
- ▶ Both banks' assets and liabilities are illiquid

Question No: 43 (Marks: 3)

Write down the categories of assets in the balance sheet of commercial banks.

Question No: 44 (Marks: 3)

How Central banks link tools to meet their objectives?

Question No: 45 (Marks: 3)

Name the factors that affect the transaction demand for money.

Question No: 46 (Marks: 5)

"Principal function of Commercial banks is to receive demand deposits and to make short-term loans".Discuss

Question No: 47 (Marks: 5)

Give brief explanation of the following.

What is reserve requirement?

How is it controlled?

What is its impact on economy?

Question No: 48 (Marks: 10)

a) If people suddenly lost faith in the banking system, what would happen to the demand for money? What impact would their loss of confidence have on inflation?

b) Why is inflation higher than money growth in high inflation countries and lower than money growth in low inflation countries?

Question No: 49 (Marks: 10)

Discuss the force of real interest rate on:

- I. Monetary policy
- II. Aggregate demand

NALTERM EXAMINATION

Spring 2009

MGT411- Money & Banking (Session - 2)**Question No: 1 (Marks: 1) - Please choose one**

Among the following which one is less liquid asset?

- ▶ Checking account
- ▶ **Car**
- ▶ Share
- ▶ Debit card

Question No: 2 (Marks: 1) - Please choose one

Which one of the following is the primary cause of inflation?

- ▶ Decreased money supply
- ▶ **Increased money supply**
- ▶ Decreased interest rates
- ▶ Increased purchasing power

Question No: 3 (Marks: 1) - Please choose one

In order to understand the link among money, inflation and economic growth. We need to measure which of the following?

- ▶ **Quantity of money**
- ▶ Volume of demand deposits
- ▶ Inflation rates
- ▶ Interest rates

Question No: 4 (Marks: 1) - Please choose one

A borrower is promised a \$100 payment (including interest) one year from today. If the lender has an 8% opportunity cost of money, he should be willing to accept what amount today?

- ▶ Rs.100.00

▶ Rs.108.20

▶ **Rs.92.59**

▶ Rs.96.40

$$PV = 100/(1.08) = 92.59$$

Question No: 5 (Marks: 1) - Please choose one

Which of the following provides the greatest incentive to borrow?

▶ A high real interest rate

▶ **A low real interest rate**

▶ A high nominal interest rate

▶ A low nominal interest rate

Question No: 6 (Marks: 1) - Please choose one

The relationship between the price and the interest rate for a zero coupon bond is best described as

▶ Volatile

▶ Stable

▶ **Inverse**

▶ No relationship

Question No: 7 (Marks: 1) - Please choose one

The coupon rate of bond:

▶ **Is another term for the current yield**

▶ Is another term for the yield to maturity

▶ Could not be calculated for a zero-coupon bond

▶ None of the given options

Question No: 8 (Marks: 1) - Please choose one

Which of the following best describes default risk?

▶ **The chance the issuer will be unable to make interest payments or repay principal**

▶ The chance the issuer will retire the debt early

▶ The chance the issuing firm will be sold to another firm

▶ The chance the issuer will sell more debt

Question No: 9 (Marks: 1) - Please choose one

Which of the following ratings shows "Highest quality and credit worthiness"?

▶ **AAA**

▶ AA

▶ BB

▶ A

Question No: 10 (Marks: 1) - Please choose one

Considering the Liquidity Premium Theory, if investors expect short term interest rates to decrease:

▶ The yield curve must have a positive slope

▶ The yield curve must be inverted

▶ **The yield curve could be flat**

▶ The slope of the yield curve should actually increase

Question No: 11 (Marks: 1) - Please choose one

Stock market bubbles can lead to:

▶ An inefficient allocation of resources

▶ **Stock market crashes**

▶ Patterns of volatile returns from the stock market

- ▶ All of the given options

Question No: 12 (Marks: 1) - Please choose one

Which of the following does not include in the bank's reserves?

- ▶ Treasury bills
- ▶ Currency in the bank
- ▶ Bank's deposits at the Federal Reserves
- ▶ **Currency in ATM machines**

Question No: 13 (Marks: 1) - Please choose one

Which of the following is a Depository institution?

- ▶ Commercial bank
- ▶ Savings institution
- ▶ Credit union
- ▶ **All of the given options**

Question No: 14 (Marks: 1) - Please choose one

A bank's Return on Equity is calculated by which of the following?

- ▶ Dividing the banks liabilities by the bank's capital
- ▶ **Dividing the bank's net profit after taxes by the bank's capital**
- ▶ Bank's assets plus the net profit after taxes and dividing this sum by the bank's capital
- ▶ Dividing the bank's net profit after taxes by the sum of the bank's assets and its liabilities

Question No: 15 (Marks: 1) - Please choose one

_____ is a component of the liability side of the commercial bank's balance sheet.

- ▶ **Deposits**
- ▶ Loans
- ▶ Securities
- ▶ All of the given options

Question No: 16 (Marks: 1) - Please choose one

Which one of the following is the similarity between pension funds and insurance companies?

- ▶ Pooling the savings of many investors
- ▶ **Spreading risk**
- ▶ Accepting deposits
- ▶ Both pool the savings of many investors and spread risk

Question No: 17 (Marks: 1) - Please choose one

Pooling of small savings to provide loans is a function of which of the following institution?

- ▶ Insurance company
- ▶ **Depository Institutions (Bank)**
- ▶ Investment Bank
- ▶ Securities firm

Question No: 18 (Marks: 1) - Please choose one

Funds of depository institution are primarily used in which of the following?

- ▶ Corporate bonds, Government bonds, Stocks, Mortgage
- ▶ **Cash, Loan, Securities**
- ▶ Stocks, Government bonds, corporate bonds, commercial papers
- ▶ Commercial papers, Bonds

Question No: 19 (Marks: 1) - Please choose one

Which one of the following refers to the risk assessment and loss reimbursement guarantee by the individual risk experts of the relevant field?

- ▶ **Underwriting process**
- ▶ Insurance process
- ▶ Research process
- ▶ None of the given options

Question No: 20 (Marks: 1) - Please choose one

The federal government is concerned about the health of the banking system for many reasons. Which of the following reason is the most important?

- ▶ Banks are where government bonds are traded.
- ▶ A significant number of people are employed in the banking industry.
- ▶ **Banks are of great importance in enabling the economy to operate efficiently.**
- ▶ Many people earn the majority of their income from interest on bank deposits.

Question No: 21 (Marks: 1) - Please choose one

"The Government is too big to fail" policy applies to the_____.

- ▶ Bank run in specific highly populated states which impacts a large percent of the total population
- ▶ Banks that have branches in more than two states
- ▶ Large corporate payroll accounts held by some banks where many people would lose their income
- ▶ **Large banks whose failure would certainly start a widespread panic in the financial system**

Question No: 22 (Marks: 1) - Please choose one

One advantage a central bank has over other businesses including banks is that_____.

- ▶ It receives all of its funding from the government
- ▶ It doesn't have stockholders
- ▶ **It can control its balance sheet at its own will**
- ▶ It doesn't have a board of directors

Question No: 23 (Marks: 1) - Please choose one

An open market purchase of U.S. Treasury securities by the Fed will cause the Fed's balance sheet to show_____.

- ▶ A decrease in the asset of securities and a decrease in the liability of reserves
- ▶ A decrease in the liability of reserves
- ▶ No change in the size of balance sheet except composition of assets
- ▶ **An increase in the asset category of securities and the liability category of reserves**

Question No: 24 (Marks: 1) - Please choose one

If required reserves are expressed by RR ; the required reserve rate by rD and deposits by D ; the simple deposit expansion multiplier is expressed as:

- ▶ $r_D D$
- ▶ $(1/r_D) D$
- ▶ **$1/r_D$**
- ▶ r_D times 10

The term $(1/r_D)$ represents the simple deposit expansion multiplier.

Question No: 25 (Marks: 1) - Please choose one

Which of the following best completes the statement; if people decrease their currency holdings, all else the same, the monetary base

- ▶ **Will not change but the quantity of M2 will increase**
- ▶ Will increase along with the quantity of M2
- ▶ Will decrease along with the quantity of M2
- ▶ There will be no change either to the monetary base or M2

Question No: 26 (Marks: 1) - Please choose one

Identify the most appropriate statement.

- ▶ The FOMC sets the federal funds rate
- ▶ The discount rate is the primary policy tool of the FOMC
- ▶ The difference between the target and actual federal funds rate is the dealer's spread
- ▶ **The FOMC sets the target federal funds rate**

The FOMC sets the target federal funds rate in order to influence interest rates and to expand or contract the money supply

Question No: 27 (Marks: 1) - Please choose one

Interest rate charged on overnight loans between the banks is known as:

- ▶ Discount rate
- ▶ Inflation rate
- ▶ Internal rate of return
- ▶ **Target federal funds rate**

Interest rate charged on overnight loans between banks is called Target Federal fund rate

Question No: 28 (Marks: 1) - Please choose one

Key assumptions behind the quantity theory of money include which of the following?

- ▶ The change in nominal GDP is zero
- ▶ Percentage change in the price level equals the percentage change in real GDP
- ▶ **The velocity of money is constant**
- ▶ The money supply is fixed

Question No: 29 (Marks: 1) - Please choose one

Which of the following statements is incorrect?

- ▶ The velocity of M2 is more volatile in the short run than the long run
- ▶ Money velocity being stable in the long run was correct as per Fisher's assumption
- ▶ The velocity of M2 is less stable than the velocity of M1
- ▶ **The velocity of M2 is relatively stable over long time periods**

Question No: 30 (Marks: 1) - Please choose one

Inflation in the long run would be determined by which one of the following?

- ▶ The exchange rate
- ▶ Aggregate demand
- ▶ **The rate of money growth**
- ▶ Aggregate supply

Ref:

In the long run the economy moves to the point where current output equals potential output,

while inflation is determined by money growth

□

The long-run aggregate supply curve is vertical at the point where current output equals

potential output.

Question No: 31 (Marks: 1) - Please choose one

Of all of the component parts of aggregate demand, the part least sensitive to changes in the real interest rate is:

- ▶ Investment
- ▶ **Government purchases**
- ▶ Consumption
- ▶ Net exports

Question No: 32 (Marks: 1) - Please choose one

If government purchases increase and push current output above potential output, then monetary policymakers are likely to:

- ▶ **Raise the real interest rate**

- ▶ Lower the real interest rate
- ▶ Keep the real interest rate constant focussing on changing nominal interest rate only
- ▶ Purchase Treasury securities

This will cause the inflation to rise and to slow down the inflation they will raise the interest rate.

Question No: 33 (Marks: 1) - Please choose one

Which one of the following is **NOT** true for gap analysis?

- ▶ It is the difference between the yield on interest sensitive assets and liabilities
- ▶ It is the difference in the maturity of assets and liabilities
- ▶ Banks manage credit risk by using gap analysis
- ▶ **It is a formal study of what a business is doing currently and where it wants to go in the future**

Gap analysis highlights the gap or difference between the yield on interest sensitive assets and the yield on interest-sensitive liabilities

- ☐ Multiplying the gap by the projected change in the interest rate yields the change in the bank's profit
- ☐ Gap analysis can be further refined to take account of differences in the maturity of assets and liabilities
- ☐ Banks can manage interest-rate risk by matching the interest-rate sensitivity of assets with the interest-rate sensitivity of liabilities,
- ☐ Purchase short term securities to match variable rate deposits
- ☐ Make long term loans at floating rates

Question No: 34 (Marks: 1) - Please choose one

A U.S. institution, United Bank, buys some financial assets denominated in British pounds. Fluctuations in the dollar value of the pound will give rise to:

- ▶ Credit risk
- ▶ Operational risk
- ▶ **Foreign exchange risk**
- ▶ Country risk

Question No: 35 (Marks: 1) - Please choose one

High State Bank purchases some U.S. Treasury bonds. We would view such bonds as being free of:

- ▶ **Credit risk**
- ▶ Interest rate risk
- ▶ Reinvestment risk
- ▶ All of the given options

Question No: 36 (Marks: 1) - Please choose one

Required reserve-to-deposit ratio is a factor that affects the quantity of money. This factor is controlled by which of the following?

- ▶ Central bank
- ▶ **Bank regulators**
- ▶ Commercial banks
- ▶ Non bank public

Question No: 37 (Marks: 1) - Please choose one

The real purchasing power of money in circulation is expressed as which of the following?

- ▶ **MV·PY**

► M/P

► PY

► M/Y

Question No: 38 (Marks: 1) - Please choose one

The FOMC targets the federal funds rate, but if they are going to alter the course of the economy they must influence which one of the following?

- The money growth rate as well
- The long-term nominal interest rate as well
- **The real interest rate as well**
- The nominal exchange rate as well

Question No: 39 (Marks: 1) - Please choose one

If real interest rate increases, investment will:

- Increase
- **Decrease**
- Remain constant
- None of the given options

Question No: 40 (Marks: 1) - Please choose one

The aggregate demand curve will be relatively flat in which of the following case?

- **If current output is very sensitive to inflation**
- If current output is not sensitive to inflation
- If policymakers react more cautiously, to a movement of current inflation
- If the monetary policy reaction curve is also flat

The aggregate demand curve will be relatively flat if current output is very sensitive to inflation (a change in current inflation causes a large movement in current output) Steep if current output is not very sensitive to inflation

Question No: 41 (Marks: 1) - Please choose one

Which of the following will shift the Aggregate Demand curve to the right?

- ▶ A decrease in autonomous money demand
- ▶ An increase in Exports
- ▶ An increase in potential output
- ▶ **An increase in Government purchases**

Increases in aggregate Demand arising from a change in monetary policy, such as a higher inflation target, will shift the aggregate demand curve to the right. Increases in interest rate intensive components of aggregate demand, such as government purchases, will also shift the aggregate demand curve to the right.

Question No: 42 (Marks: 1) - Please choose one

When you need more units of money to buy the same amount of good which you bought a month or a year ago. What does it mean?

- ▶ Your economy has a high economic growth rate
- ▶ Your economy's GDP value is more than previous year
- ▶ Price in your economy is falling causing deflation
- ▶ **Price in your economy is raising causing inflation**

Question No: 43 (Marks: 3)

Give a single line definition of the following.

Answer:

1) **Credit risk:** This is a risk which arises when loans are not repaid. It is avoided by diversification and checking credit worthiness.

2) **Interest-rate risk:** The assets and liabilities of a bank are sensitive to interest rate but liabilities are of short term and assets of long term so by an increase in interest rate banks have the risk that value of assets fall more than that of liabilities affecting the net worth or capital of bank.

3) **Liquidity risk:** It is a risk associated with a sudden increase in demand of funds. If bank can not meet the withdrawal requirement of all its customers, bank is considered illiquid and it may fail.

Question No: 44 (Marks: 3)

Describe the role of Central bank as “The Bankers Bank”.

Answer: The central Bank works as a Banker’s Bank. The role which it plays is

- Lender of last resort. If banks go illiquid or during financial stress central bank provide discount loans to banks.
- Manage interbank payment system
- Monitors the working of banks and stabilizing financial system

Question No: 45 (Marks: 3)

What is the effect of an increase in potential output on inflation and output?

Answer: Increase in potential output shifts long run aggregate supply curve to right, this shift has no impact on short run aggregate supply curve so inflation and output remains unchanged. But in long run now as potential output is increased so current output will be below potential output creating recessionary output gap causing inflation to fall and output begins to rise.

Question No: 46 (Marks: 5)

Which relationship is shown by the monetary policy reaction curve?

What will be the change in monetary policy reaction curve if the given factors change?

- a. An increase in the Central Bank's Inflation Target
- b. An increase in the Long-run real interest rate

Answer: Monetary policy reaction curve gives a relationship between inflation and real interest rate. It is set so that when current inflation equals target inflation, real interest rate equals long run real interest rate.

- a. Increase in central bank's inflation target shifts the monetary policy reaction curve to right
- b. Increase in long run real interest rate shifts the curve to left.

Question No: 47 (Marks: 5)

Fill the table below:

Financial intermediary	Primary Sources of Funds (Liabilities)	Primary Uses of funds (Assess)	Services provided
Depository institutions (Bank)	Checkable deposits, savings and time deposits Borrowing from other sources	Cash reserves, Market securities, loans	Pool savings, access to payment system, Diversification, liquidity
Insurance company	Expected claims	Corporate and government bonds, stocks	Pooling of risk

Question No: 48 (Marks: 10)

Discuss the factors that cause an increase or decrease in the transaction and portfolio demand for money.

Answer:

Transaction Demand for money: The quantity of money people hold for transaction purposes is called transaction demand for money. It depend on following factors

- **Nominal income of people:** As the nominal income increases spending increases which causes an increase in the demand for money holding.
- **Cost of holding money:** The cost of money holding is the interest foregone in holding the money in hand. So if the nominal interest rate is higher people will prefer keeping money in banks etc so demand for money holding decreases.
- **Availability of substitutes:** If people have cheaper alternative means of payment they will hold less money.

Portfolio Demand for Money: Money is one instrument that people can hold in their investment portfolio. The demand for holding money in portfolio is dependent on following factors:

- **Wealth:** An increase in wealth increases the demand for money
- **Return on alternative investments:** As the return on alternative investments fall people hold more money.
- **Expected future interest rate:** An increase in expected future interest rate increases holding demand for money
- **Riskiness of alternatives:** Riskier the alternative investments greater the demand for money.
- **Liquidity:** If alternative investments become more liquid demand for money decreases

Question No: 49 (Marks: 10)

If Excess reserves are not available how a bank manages Liquidity risk?

Answer: One way of managing liquidity risk is to keep excess reserves but this is not profitable as reserve is interest free.

There are two other ways through which a bank can manage liquidity risk.

- Adjusting other assets of balance sheet
- Adjusting liability side

In adjusting assets banks can instead of paying through reserves, fulfill withdrawal requirements by adjusting other assets. Banks can either

- sell their securities
- sell their loans
- refuse a loan renewal

The second option banks have is to adjust their liabilities.

- Borrow from other banks or central bank
- Attracting more deposits

FINAL TERM EXAMINATION
Spring 2009
MGT411- Money & Banking (Session - 3)

Time: 120 min

Marks: 81

Question No: 1 (Marks: 1) - Please choose one

Which of the following is the final mode of payment?

- ▶ **Money**
- ▶ ATM
- ▶ Cheque
- ▶ Yet to discover

Question No: 2 (Marks: 1) - Please choose one

Which of the following statement truly represents the main difference between debit card and store value card?

- ▶ **Debit card is operated by ATM machine while Store value card doesn't**
- ▶ Debit card appearance is different from Store value card
- ▶ Debit card is not specific for user but store value card is specific
- ▶ Debit card is specific for user but store value card is not

Question No: 3 (Marks: 1) - Please choose one

Which of the following statements is correct?

- ▶ If you can buy the same goods this year as you bought last year with less money the money supply decreased.
- ▶ **To purchase the same goods today that were purchased one year ago requires more money, there must have been inflation**
- ▶ To purchase the same goods today as one year ago requires less money, the money supply must have increased
- ▶ To purchase the same goods today that were purchased one year ago requires the same amount of money, there must have been inflation

Question No: 4 (Marks: 1) - Please choose one

Which of the following is the difference that lies between the options and futures?

- ▶ **Options is not binding whereas future is binding**

- ▶ Futures carry risks but Options didn't carry risk
- ▶ Centralized clearing houses guarantee futures but not options contracts
- ▶ There is no difference between options and futures

Question No: 5 (Marks: 1) - Please choose one

Which of the following describes the general formula for the calculation of the compound interest?

- ▶ $FV = PV/(1+i)^n$
- ▶ $FV = PV/(1-i)^n$
- ▶ **$FV = PV*(1+i)^n$**
- ▶ $FV = PV*(1-i)^n$

Question No: 6 (Marks: 1) - Please choose one

What is true about the relationship between standard deviation and risk?

- ▶ **Greater the standard deviation greater will be the risk**
- ▶ Greater the standard deviation lower will be the risk
- ▶ Greater the standard deviation risk will be remained the same
- ▶ No relation between them

Question No: 7 (Marks: 1) - Please choose one

Current yield is equal to which of the following?

- ▶ Price paid / yearly coupon payment
- ▶ Price paid *yearly coupon payment
- ▶ Yearly coupon payment / face value of bond
- ▶ **Yearly coupon payment / price paid pg 43**

Question No: 8 (Marks: 1) - Please choose one

The risk premium of a bond will:

- ▶ Higher for investment-grade bonds than for high-yield bonds
- ▶ Positive but small if the risk of default is zero
- ▶ Decrease when the default risk rises
- ▶ **Increase when the risk of default rises**

Question No: 9 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

- ▶ Free-riding
- ▶ **Moral hazard**
- ▶ Adverse selection
- ▶ The Lemons market

Question No: 10 (Marks: 1) - Please choose one

Which of the following does not include in marketable securities?

- ▶ Common stocks
- ▶ Bonds of the U.S. Treasury
- ▶ Treasury Bills
- ▶ **Non transaction deposits**

Question No: 11 (Marks: 1) - Please choose one

_____ is a component of the liability side of the commercial bank's balance sheet.

- ▶ **Deposits pg 81**
- ▶ Loans
- ▶ Securities
- ▶ All of the given options

Question No: 12 (Marks: 1) - Please choose one

A stand by letter of credit is a form of:

- ▶ Loan
- ▶ **Insurance pg 80**
- ▶ Security
- ▶ Deposits

Question No: 13 (Marks: 1) - Please choose one

Funds of depository institution are primarily used in which of the following?

- ▶ Corporate bonds, Government bonds, Stocks, Mortgage
- ▶ **Cash, Loan, Securities pg 89**
- ▶ Stocks, Government bonds, corporate bonds, commercial papers
- ▶ Commercial papers, Bonds

Question No: 14 (Marks: 1) - Please choose one

Securities firms include _____.

- ▶ Brokerage firms
- ▶ Investment banks
- ▶ Mutual fund companies
- ▶ **All of the given options pg 21**

Question No: 15 (Marks: 1) - Please choose one

_____ is the combination of the term life insurance and savings account.

- ▶ Property insurance
- ▶ Health insurance
- ▶ **Whole life insurance pg 86**
- ▶ Casualty insurance

Question No: 16 (Marks: 1) - Please choose one

Which of the following is a Primary source of funds of Finance company?

- ▶ **Bonds**
- ▶ Policy benefits to be paid out to futures
- ▶ Loan guarantees
- ▶ Shares sold to customers

Ref: Bonds Bank loans Commercial paper

Question No: 17 (Marks: 1) - Please choose one

What matters most during a bank run is _____.

- ▶ **The liquidity of the bank**
- ▶ The solvency of the bank
- ▶ The number of depositors
- ▶ Safety of bank

Ref:

<http://74.125.47.132/search?q=cache:yuLoNKCxXbcJ:pages.towson.edu/edefranc/CHAP014.RTF+%22What+matters+most+during+a+bank+run+is%22&cd=4&hl=en&ct=clnk&gl=pk>

Question No: 18 (Marks: 1) - Please choose one

Khushhali bank is:

- ▶ A Finance company
- ▶ A Securities firm
- ▶ **A Government sponsored enterprise**
- ▶ An insurance company

Ref: Government Sponsored Enterprises:

Federal credit agencies that provide loans directly for farmers and home mortgages, as well as guarantee programs that insure the loans made by private lenders. HBFC, ZTBL, Khushhali bank, SME Bank

Question No: 19 (Marks: 1) - Please choose one

Under the purchase and assumption method of dealing with a failed bank, the FDIC _____.

- ▶ Sells the failed bank to the Federal Reserve
- ▶ **Finds another bank to take over the insolvent bank**
- ▶ Takes over the day to day management of the bank
- ▶ Sells off the profitable loans of the failed bank in an open auction

Question No: 20 (Marks: 1) - Please choose one

On which of the following success of monetary policy depends upon?

- ▶ It may be on the chance or by luck
- ▶ The institutional environment
- ▶ Competent people in responsible positions
- ▶ **Both the institutional environment and Competent people in responsible positions**

Question No: 21 (Marks: 1) - Please choose one

For the Federal Reserve, the largest liability on their balance sheet is _____.

- ▶ Non-bank currency
- ▶ **Reserves**
- ▶ Government accounts
- ▶ Treasury certificates

Ref: [http://highered.mcgraw-](http://highered.mcgraw-hill.com/sites/0072452692/student_view0/chapter17/multiple_choice_quiz.html)

[hill.com/sites/0072452692/student_view0/chapter17/multiple_choice_quiz.html](http://highered.mcgraw-hill.com/sites/0072452692/student_view0/chapter17/multiple_choice_quiz.html)

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- ▶ A decrease in the asset of securities and a decrease in the liability of reserves
- ▶ A decrease in the liability of reserves
- ▶ No change in the size of balance sheet except composition of assets
- ▶ **An increase in the asset category of securities and the liability category of reserves**

Ref: <http://highered.mcgraw>

Question No: 23 (Marks: 1) - Please choose one

Which one of the following is a primary policy tool of the Central Bank?

- ▶ Inflation rate
- ▶ Open market operations
- ▶ **Interest rate**
- ▶ Money supply

The target federal funds rate is the central bank's primary policy instrument.

Interest rate at which banks borrow and lend reserves overnight (the federal funds rate)

Question No: 24 (Marks: 1) - Please choose one

_____ is the strategy of buying and selling government securities:

- ▶ **Open market operations**
- ▶ Reserve requirement
- ▶ Discount loans
- ▶ Cash withdrawal

Ref: <http://highered.mcgraw>

Question No: 25 (Marks: 1) - Please choose one

The _____ shows how the quantity of money is related to the monetary base:

- ▶ **Money multiplier**
- ▶ Deposit expansion multiplier
- ▶ Fiscal multiplier
- ▶ Tax multiplier

Ref: The money multiplier shows how the quantity of money (checking account plus currency) is related to the monetary base (reserves in the banking system plus currency held by the nonbank public)

Question No: 26 (Marks: 1) - Please choose one

Which of the following is correct?

- ▶ **Monetary base = Currency + Reserves**
- ▶ Monetary base = Currency + Deposits
- ▶ Monetary base = Loans + Reserves
- ▶ Monetary base = Required reserves + Deposits

Ref: $M = C + D$

Monetary Base = Currency + Reserves

Question No: 27 (Marks: 1) - Please choose one

The central bank makes which type of loans?

- ▶ Primary credit
- ▶ Secondary credit
- ▶ Seasonal credit
- ▶ **All of the given options**

Ref: The central bank makes three types of loans:

Primary credit,
Secondary credit,
Seasonal credit

Question No: 28 (Marks: 1) - Please choose one

Which of the following expresses the equation of exchange?

- ▶ **$MV = PY$**
- ▶ $MV = Y$
- ▶ $MY = PV$
- ▶ $MP = VY$

Ref: The equation of exchange, $MV=PY$ provides the link between money and prices if we rewrite it in terms of percentage changes

Question No: 29 (Marks: 1) - Please choose one

If the liquidity of alternative assets falls, the demand for money_____.

- ▶ **Increases**
- ▶ Decreases
- ▶ Remains unchanged
- ▶ None of the given option

Ref: As the liquidity of alternatives falls, the demand for money goes up

Question No: 30 (Marks: 1) - Please choose one

Interest rate risk arises as a result of which one of the following consequences?

- ▶ It arises when banks make additional profit by using derivatives
- ▶ It arises when loan is not repaid
- ▶ It arises because of sudden demands of funds
- ▶ **It arises when two sides of the balance sheet do not match up**

The two sides of a bank's balance sheet often do not match up because liabilities tend to be short-term while assets tend to be long-term; this creates interest-rate risk

Question No: 31 (Marks: 1) - Please choose one

A U.S. institution, United Bank, buys some financial assets denominated in British pounds. Fluctuations in the dollar value of the pound will give rise to:

- ▶ Credit risk
- ▶ Operational risk
- ▶ **Foreign exchange risk**
- ▶ Country risk

Ref: Foreign exchange risk (the risk from unfavorable moves in the exchange rate)

Question No: 32 (Marks: 1) - Please choose one

High State Bank purchases some U.S. Treasury bonds. We would view such bonds as being free of:

- ▶ **Credit risk**
- ▶ Interest Rate Risk
- ▶ Reinvestment risk
- ▶ All of the given options

[ref](#)

Question No: 33 (Marks: 1) - Please choose one

In general, if the financial institution's balance sheet displays assets and liabilities that are "mis-matched" to a significant degree, the institution faces:

- ▶ Operational risk
- ▶ Sovereign risk
- ▶ **Interest rate risk**
- ▶ Liquidity risk

The two sides of a bank's balance sheet often do not match up because liabilities tend to be short-term while assets tend to be long-term; this creates interest-rate risk

☐ In order to manage interest-rate risk, the bank must determine how sensitive its balance sheet (assets and liabilities) is to a change in interest rates;

Question No: 34 (Marks: 1) - Please choose one

The idea that central banks should be independent of political pressure is an idea that:

- ▶ Is included in Federal Reserve Act in 1913
- ▶ **Is relatively new**
- ▶ Every central bank was founded upon
- ▶ Became quite popular in the early 1900's

[ref](#)

Question No: 35 (Marks: 1) - Please choose one

Currency-to-deposit ratio is a factor that affects the quantity of money. This factor is controlled by which of the following?

- ▶ Central bank
- ▶ Bank regulators
- ▶ Commercial banks
- ▶ **Non bank public**

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The real purchasing power of money in circulation is expressed as which of the following?

- ▶ MV·PY
- ▶ **M/P**
- ▶ PY
- ▶ M/Y

[ref](#)

Question No: 37 (Marks: 1) - Please choose one

The FOMC targets the federal funds rate, but if they are going to alter the course of the economy they must influence which one of the following?

- ▶ The money growth rate as well
- ▶ The long-term nominal interest rate as well
- ▶ **The real interest rate as well**
- ▶ The nominal exchange rate as well

[Reference](#)

Question No: 38 (Marks: 1) - Please choose one

Inflation in the long run would be determined by which one of the following?

- ▶ The exchange rate
- ▶ Aggregate demand
- ▶ **The rate of money growth**
- ▶ Aggregate supply

Question No: 39 (Marks: 1) - Please choose one

According to real business cycle theory, aggregate economic fluctuations are caused by changes in:

- ▶ The money supply
- ▶ Fiscal policy
- ▶ High unemployment
- ▶ **The natural rate level of output**

Question No: 40 (Marks: 1) - Please choose one

Which of the following represents the history of money uptill the modern age?

- ▶ **Gold/silver coins____ Paper Currency____Electronic Fund Transfer**
- ▶ Paper Currency____Gold/Silver coins____Electronic Fund Transfer
- ▶ Electronic Fund Transfer____Paper Currency ____Gold/silver coins
- ▶ Gold/silver coins____Electronic Fund Transfer____Paper currency

Question No: 41 (Marks: 1) - Please choose one

Zero-Coupon Bonds are pure discount bonds since they sell at a price _____.

- ▶ Equal their face value
- ▶ **Below their face value**
- ▶ Above their face value

- ▶ None of the given options

Question No: 42 (Marks: 1) - Please choose one

_____ pool money from individuals and invest in different portfolio and return is distributed in different share holders.

- ▶ **Mutual funds**
- ▶ Investment banks
- ▶ Brokers
- ▶ Finance companies

Question No: 43 (Marks: 3)

What is the source of Trading risk, Credit risk and Liquidity risk?

Question No: 44 (Marks: 3)

"Monetary policy can be used to stabilize economy".Discuss.

Question No: 45 (Marks: 3)

Give an account of different components of aggregate demand?

Question No: 46 (Marks: 5)

Differentiate between the Foreign exchange risk and the Sovereign risk.

Question No: 47 (Marks: 5)

Central bank can control the size of the monetary base. What are central bank monetary policy tools? Name them.

Question No: 48 (Marks: 10)

a) Central bank performs several functions. Describe how each tool of monetary policy is used in fulfilling each of those roles.

b) In 1992, the Bank of Canada eliminated the reserve requirement entirely. What do you think would happen if the State Bank of Pakistan followed the same course? Alternatively, suppose that following an act of Parliament, the State Bank of Pakistan started to pay interest on required reserves. Would the change have an impact on the market for reserves?

Question No: 49 (Marks: 10)

Explain how and why the components of aggregate demand depend on the real interest rate. Be sure to distinguish between the real and nominal interest rates, and explain why the distinction matters.

It is helpful to think of aggregate demand as having two parts, one that is sensitive to real

interest rate changes and one that is not

f Investment is the most important of the components of aggregate demand that are sensitive to

changes in the real interest rate.

Output (Y)

Inflation (π)

- ☐ An investment can be profitable only if its internal rate of return exceeds the cost of borrowing
- ☐ Consumption and net exports also respond to the real interest rate;
- ☐ Consumption decisions often rely on borrowing, and the alternative to consumption is saving

(higher rates mean more saving).

f As for net exports, when the real interest rate in a country rises, her financial assets become

attractive to foreigners, causing local currency to appreciate, which in turn means more imports

and fewer exports (lower net exports)

f While changes in real interest rate may have an impact on the government's budget by raising

the cost of borrowing, the effect is likely to be small and ignorable.

f Thus, considering consumption, investment, and net exports, an increase in the real interest rate

reduces aggregate demand (the effect on the 4th component, government spending, is small

Real and Nominal Interest Rates

So far we have been computing the present value using nominal interest rates (i), or interest

rates expressed in current-dollar terms

But inflation affects the purchasing power of a dollar, so we need to consider the real interest

rate (r), which is the inflation-adjusted interest rate.

The Fisher equation tells us that the nominal interest rate is equal to the real interest rate plus

the expected rate of inflation

Fisher Equation:

FINALTERM EXAMINATION

Fall 2009

MGT411- Money & Banking (Session - 3)

Marks: 87

Question No: 1 (Marks: 1) - Please choose one

If more students didn't pay back their student loans then which of the following statement would imply?

- ▶ Student loans may become more difficult to obtain
- ▶ **The interest rate on student loans would increase**
- ▶ Fewer people may attend college
- ▶ All of the given options

Question No: 2 (Marks: 1) - Please choose one

Price of 100 goods under the barter system would be _____.

- ▶ 5050
- ▶ 19800
- ▶ **4950**
- ▶ 20200

Under barter the general formula for n goods, we will have $n(n - 1) / 2$ prices

Question No: 3 (Marks: 1) - Please choose one

Recently M2 and M3 have become:

- ▶ A less useful measure of the relationship between the money supply and inflation
- ▶ **The money supply, the Federal Reserve pays the most attention to, in conducting monetary policy**
- ▶ Less useful than M1 due to new substitutes for standard checking account
- ▶ The slowest growing of all of the money aggregates

Question No: 4 (Marks: 1) - Please choose one

Economic research shows:

- ▶ There is a strong inverse correlation between financial market development and economic growth
- ▶ There is weak relation between financial market development and economic growth around 0.25
- ▶ **There is a relatively strong positive correlation between financial market development and economic growth**
- ▶ There isn't any correlation between financial market development and economic growth

Question No: 5 (Marks: 1) - Please choose one

Considering the value of a financial instrument, the longer the time until the promised payment is made:

- ▶ **The less valuable is the promise to make it since time is valuable**
- ▶ The greater the risk, therefore the promise has greater value
- ▶ The more valuable is the promise to make it
- ▶ It has no effect on the value of instrument

Question No: 6 (Marks: 1) - Please choose one

Which of the following market allowed networks of dealers that are connected electronically?

- ▶ New York Stock Exchange
- ▶ **NASDAQ**
- ▶ Large exchanges in London
- ▶ Large exchanges in Tokyo

Question No: 7 (Marks: 1) - Please choose one

Bonds that are issued by Government are called _____.

- ▶ Government bonds
- ▶ **Treasury bonds**
- ▶ Corporate bonds
- ▶ Callable bonds

Question No: 8 (Marks: 1) - Please choose one

Asma deposits funds into a CD account at her bank. The CD account has an annual interest of 4.0%. If Asma leaves the funds in the CD account for entire two years she will have \$1081.60. What amount is Asma depositing?

- ▶ \$960.60
- ▶ \$900.00
- ▶ \$1005.00
- ▶ **\$1000.00**

Question No: 9 (Marks: 1) - Please choose one

Which of the following investment will be profitable?

- ▶ IRR is less than cost of borrowing
- ▶ IRR is equal to cost of borrowing
- ▶ **IRR is greater than cost of borrowing**
- ▶ IRR has no connection with cost of borrowing

Question No: 10 (Marks: 1) - Please choose one

Suppose there are two investments, A and B, investment A has low standard deviation where as investment B has high standard deviation. What would you think that most people will choose?

- ▶ **Investment A**
- ▶ Investment B
- ▶ Indifference between them

- ▶ Insufficient information to decide

Question No: 11 (Marks: 1) - Please choose one

The liquidity premium theory suggests that yield curves should usually be:

▶ **Up-sloping**

- ▶ Inverted
- ▶ Flat
- ▶ Up-sloping through year 1, then flat thereafter

Question No: 12 (Marks: 1) - Please choose one

What will the yield curve look like if future short-term interest rates are expected to rise sharply?

- ▶ **It will steeply slope upward**
- ▶ It will be horizontal
- ▶ It will slightly slope upward
- ▶ It will slope downward

Question No: 13 (Marks: 1) - Please choose one

The fact that a financial intermediary can use the same contract for many customers is an example of:

- ▶ Economies of Scope
- ▶ The Law of Diminishing Marginal Returns
- ▶ The Law of Increasing Opportunity Cost
- ▶ **Economies of Scale**

Question No: 14 (Marks: 1) - Please choose one

Which of the following does not include in the bank's reserves?

- ▶ Treasury bills
- ▶ Currency in the bank
- ▶ Bank's deposits at the Federal Reserves
- ▶ **Currency in ATM machines**

Cash in ATM can not be consider as reserve as that cash can be withdrawn by any client.

Above comments from Team.You are welcome to give any other logic if you have.

Question No: 15 (Marks: 1) - Please choose one

_____ measures how efficiently a bank uses its assets.

- ▶ **Return on Assets**
- ▶ Return on Equity
- ▶ Bank Capital
- ▶ Bank Profitability

Question No: 16 (Marks: 1) - Please choose one

One way for a bank to deal with liquidity risk is _____.

► **To hold sufficient excess reserves**

- To charge all borrowers from the same industry an average rate for that industry
- To avoid making loans to borrowers from a broad spectrum
- To limit the number of loans made in any year

□ One way to manage liquidity risk is to hold sufficient excess reserves (beyond the required

reserves mandated by the central bank) to accommodate customers' withdrawals.

□ However, this is expensive (interest is foregone)

□ Two other ways to manage liquidity risk are:

□ Adjusting assets

□ Adjusting liabilities

Question No: 17 (Marks: 1) - Please choose one

Which of the following is the primary source of funds for Depository institutions?

- Short term loans
- Shares sold to customers
- **Savings and time deposits**
- Commercial papers

Question No: 18 (Marks: 1) - Please choose one

Which one of the following refers to the risk assessment and loss reimbursement guarantee by the individual risk experts of the relevant field?

- **Underwriting process**
- Insurance process
- Research process
- None of the given options

Question No: 19 (Marks: 1) - Please choose one

"Financial regulations restrict the assets that banks can own". Which one of the following provides the reason for that ?

- Because it limits the growth rate of banks
- **Because it combats the moral hazard that government safety nets provide**
- Because it prevents banks from being too profitable
- Because it keeps banks from spending lavishly on perks for executives

Question No: 20 (Marks: 1) - Please choose one

An open market purchase of U.S. Treasury securities by the Fed will cause the Fed's balance sheet to show _____.

- ▶ A decrease in the asset of securities and a decrease in the liability of reserves
- ▶ A decrease in the liability of reserves
- ▶ No change in the size of balance sheet except composition of assets
- ▶ **An increase in the asset category of securities and the liability category of reserves**

Question No: 21 (Marks: 1) - Please choose one

Identify the most appropriate statement.

- ▶ The FOMC sets the federal funds rate
- ▶ The discount rate is the primary policy tool of the FOMC
- ▶ The difference between the target and actual federal funds rate is the dealer's spread
- ▶ **The FOMC sets the target federal funds rate**

Question No: 22 (Marks: 1) - Please choose one

Which one of the following refers to actual tools of policy instruments that the central bank controls directly?

- ▶ **Operating instruments**
- ▶ Intermediate instruments
- ▶ Financial instruments
- ▶ None of the given options

Operating instruments refer to actual tools of policy, instruments that the central bank controls

directly.

Question No: 23 (Marks: 1) - Please choose one

Which one of the following is used primarily by small agricultural banks to help in managing the cyclical nature of farmer's loans and deposits?

- ▶ Primary credit
- ▶ Secondary credit
- ▶ **Seasonal credit**
- ▶ All of the given options

Seasonal credit is used primarily by small agricultural banks to help in managing the cyclical

nature of farmers' loans and deposits

Question No: 24 (Marks: 1) - Please choose one

Over the long run if central banks want to avoid high rates of inflation they need to be concerned with which of the following?

- ▶ Unemployment
- ▶ **Money growth**
- ▶ Real economic growth
- ▶ Productivity of labor

Every country with high inflation has high money growth; thus to avoid sustained episodes of

high inflation, a central bank must be concerned with money growth.

Question No: 25 (Marks: 1) - Please choose one

If M = the money supply; Y = real output, P = the price level, and V = velocity, which of the following equals the income velocity of money?

- ▶ $(P \cdot Y) + M$
- ▶ $(P \cdot M)/Y$
- ▶ $(Y \cdot M)/P$
- ▶ **$(P \cdot Y)/M$**

Question No: 26 (Marks: 1) - Please choose one

Key assumptions behind the quantity theory of money include which of the following?

- ▶ The change in nominal GDP is zero
- ▶ Percentage change in the price level equals the percentage change in real GDP
- ▶ **The velocity of money is constant**
- ▶ The money supply is fixed

Question No: 27 (Marks: 1) - Please choose one

Identify the correct statement.

- ▶ When the real interest rate increases the reward for saving decreases
- ▶ When the real interest rate decreases the cost of current consumption increases
- ▶ **When the real interest rate increases current consumption becomes more expensive and reward for saving increases**
- ▶ When the real interest rate increases only the reward for saving increases

Question No: 28 (Marks: 1) - Please choose one

Which one of the following is **NOT** true for gap analysis?

- ▶ It is the difference between the yield on interest sensitive assets and liabilities
- ▶ It is the difference in the maturity of assets and liabilities

- ▶ Banks manage credit risk by using gap analysis
- ▶ **It is a formal study of what a business is doing currently and where it wants to go in the future**

Gap analysis highlights the gap or difference between the yield on interest sensitive assets and

the yield on interest-sensitive liabilities

☐ Multiplying the gap by the projected change in the interest rate yields the change in the bank's profit

☐ Gap analysis can be further refined to take account of differences in the maturity of assets and liabilities

☐ Banks can manage interest-rate risk by matching the interest-rate sensitivity of assets with the interest-rate sensitivity of liabilities,

☐ Purchase short term securities to match variable rate deposits

☐ Make long term loans at floating rates

Question No: 29 (Marks: 1) - Please choose one

Currency-to-deposit ratio is a factor that affects the quantity of money. This factor is controlled by which of the following?

- ▶ Central bank
- ▶ Bank regulators
- ▶ Commercial banks
- ▶ **Non bank public**

Question No: 30 (Marks: 1) - Please choose one

What kind of relationship is there between rate of inflation and aggregate demand?

- ▶ Positive relationship
- ▶ **Negative relationship**
- ▶ Direct relationship
- ▶ Strong relationship

☐ ☐ Because real money balances fall at higher levels of inflation, resulting in a lower level of

aggregate demand, the aggregate demand curve is downward sloping.

Question No: 31 (Marks: 1) - Please choose one

If real interest rate increases, investment will:

- ▶ Increase
- ▶ **Decrease**
- ▶ Remain constant
- ▶ None of the given options

Question No: 32 (Marks: 1) - Please choose one

Complete crowding-out will occur if:

- ▶ The money supply rises when Government purchases increases
- ▶ An increase in Government purchases does not change Consumption
- ▶ Taxes rise when Government purchases increases
- ▶ **An increase in Government purchases causes an equal fall in**

Consumption, Investment, and Net Exports

Question No: 33 (Marks: 1) - Please choose one

The long-run supply curve is:

- ▶ Horizontal
- ▶ **Vertical**
- ▶ Downward-sloping
- ▶ Upward-sloping

[http://books.google.com/books?id=iiNLQK2jlxYC&pg=PA113&dq="long-run+supply+curve+is+vertical"&ei=vb2OS6OnEqOukASc34HYDQ&cd=3#v=onepage&q=%E2%80%9Clong-run%20supply%20curve%20is%20vertical%E2%80%9D&f=false](http://books.google.com/books?id=iiNLQK2jlxYC&pg=PA113&dq=)

Question No: 34 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of financial institutions?

- ▶ Bank
- ▶ Securities firm
- ▶ **Stock exchange**
- ▶ Insurance company

Question No: 35 (Marks: 1) - Please choose one

Which of the following is the modern way of transferring fund or making payment?

- ▶ Paychecks system
- ▶ **Electronic fund transfer**
- ▶ Mailed transaction
- ▶ Local bank

Question No: 36 (Marks: 1) - Please choose one

_____ evolved from coffee houses to trading places to electronic networks.

- ▶ Financial companies
- ▶ **Financial markets**
- ▶ Financial institutions
- ▶ Financial intermediaries

Question No: 37 (Marks: 1) - Please choose one

Which of the following is the formula for calculating ROE (Return on equity)?

- ▶ ROE = Net profit before taxes / bank capital
- ▶ ROE = Net profit after taxes / total assets
- ▶ **ROE = Net profit after taxes / bank capital**
- ▶ ROE = Net profit before taxes / total assets

Question No: 38 (Marks: 1) - Please choose one

Which of the following is related to leverage?

- ▶ **Return on assets and return on equity**
- ▶ Return on assets
- ▶ Return on equity
- ▶ None of the given options

ROA and ROE are related to leverage

☐ A measure of leverage is the ratio of bank assets to bank capital. Multiplying ROA by this ratio

yields RO

Question No: 39 (Marks: 1) - Please choose one

Which of the following technique is necessary for making profit in a bank?

- ▶ Interest rate on liabilities must be lower
- ▶ Interest rate on deposits must be higher
- ▶ Interest rate on deposits must be higher than the interest rate on the liabilities
- ▶ **Interest rate on deposits must be lower than the interest rate on the liabilities**

Question No: 40 (Marks: 1) - Please choose one

Which of the following are the primary uses of funds of Insurance Company?

- ▶ Cash, loans, securities
- ▶ **Corporate bonds, government bonds**
- ▶ Commercial paper, bonds, mortgages
- ▶ Mortgages, consumer loans, business loans

Question No: 41 (Marks: 1) - Please choose one

The higher the inflation is, the less predictable it is, and the more _____ risk it creates.

- ▶ Trading
- ▶ Inflation
- ▶ **Systematic**
- ▶ Non-systematic

The higher the inflation is, the less predictable it is, and the more systematic risk it creates.

Question No: 42 (Marks: 1) - Please choose one

Which of the following are costs of high and/or unexpected inflation?

- ▶ Increased uncertainty
- ▶ Higher nominal interest rates
- ▶ Hurts net creditors
- ▶ **All of the above**

Question No: 43 (Marks: 1) - Please choose one

Which of the following side of a balance sheet represent that central bank is a government's bank?

- ▶ Asset side of the balance sheet
- ▶ Liabilities side of the balance sheet
- ▶ Equity side of the balance sheet
- ▶ **The whole balance sheet**

The central bank creates money and thereby controls the availability of money and credit in a country's economy

Question No: 44 (Marks: 1) - Please choose one

_____ of a bank is a liability for the bank but that deposit creates reserves of that bank in the central bank that is asset for the bank.

- ▶ **Deposits**
- ▶ Currency
- ▶ Loan
- ▶ Security

Question No: 45 (Marks: 1) - Please choose one

If we label the quantity of money M and the monetary base MB , the money multiplier m is defined by which of the following relationship?

▶ **$M = m \times MB$**

▶ $M = m / MB$

▶ $M = m - MB$

▶ $M = m + MB$

The money multiplier shows how the quantity of money (checking account plus currency) is related to the monetary base (reserves in the banking system plus currency held by the nonbank public) Taking m for money multiplier and MB for monetary base, the Quantity of Money, M is

$$M = m \times MB$$

Question No: 46 (Marks: 1) - Please choose one

If a bank holds excess reserve it depends upon which of the following?

▶ Cost of holding the excess reserve

▶ Benefit of holding excess reserve

▶ Duration of holding excess reserve

▶ **Cost and benefit of holding excess reserve**

comments (not sure)

Question No: 47 (Marks: 1) - Please choose one

If a 45 degree line on a graph shows that average annual inflation is exactly equal to the average annual money growth, what will be the position of money growth and inflation below the 45 degree line?

▶ Money growth = inflation

▶ **Money growth < inflation**

▶ Money growth > inflation

▶ Incomplete information

Question No: 48 (Marks: 1) - Please choose one

_____ grow at a rate equal to the rate of real growth plus the desired level of inflation.

▶ Monetary base

▶ **Monetary aggregates**

▶ Money multiplier

▶ Deposit multiplier

Policymakers should strive to ensure that the monetary aggregates grow at a rate equal to the rate of real growth plus the desired level of inflation.

Question No: 49 (Marks: 1) - Please choose one

With an inflation objective of 2% and real growth forecast of 3.5%, equation of exchange tells us that policy makers should set velocity growth at 3%, according to this equation what would be the money growth?

- ▶ 8%
- ▶ 4%
- ▶ **2.5%**
- ▶ 1%

Money Growth + Velocity Growth = Inflation + Real Growth

$$MG + 3 = 2 + 3.5$$

$$MG = 2.5$$

Question No: 50 (Marks: 1) - Please choose one

When interest rates are expected to _____, money demand goes up as people switch from holding bonds into holding money.

- ▶ **Rise**
- ▶ Decrease
- ▶ Remain stable
- ▶ Incomplete information

When interest rates are expected to rise, money demand goes up as people switch from holding bonds into holding money. Lesson 39

Question No: 51 (Marks: 1) - Please choose one

Portfolio demand for money goes up as the liquidity of alternatives _____

- ▶ **Falls**
- ▶ Rises
- ▶ Remain stable
- ▶ Cannot be determined

As the liquidity of alternatives falls, the demand for money goes up

Question No: 52 (Marks: 1) - Please choose one

Rising inflation makes foreign goods cheaper in relation to domestic goods, driving imports _____ and net exports _____.

► **Up, down**

- Down, up
- Down, down
- Up, up

rising inflation makes foreign goods cheaper in relation to domestic goods, driving imports

up and net exports down.

Question No: 53 (Marks: 1) - Please choose one

Inflation falls and output rises until the economy returns to the point where current output _____ potential output and inflation equals the central bank's target.

► **Equals**

- Greater than
- Lower than
- Incomplete information

Inflation falls and output rises until the economy returns to the point where current output equals potential output and inflation equals the central bank's target.

Question No: 54 (Marks: 1) - Please choose one

_____ in the aggregate demand curve, regardless of its source, will change inflation but not output.

- Upward shift
- Downward shift
- **Any shift**
- None of the given options

Any shift in the aggregate demand curve, regardless of its source, will change inflation but not output

Question No: 55 (Marks: 3)

What is term life insurance?

Question No: 56 (Marks: 5)

What is the difference between Corporate banking and Enterprise banking?

Question No: 57 (Marks: 5)

In what ways monetary and fiscal policy differs? Discuss.

Question No: 58 (Marks: 10)

How does a shift in aggregate demand and aggregate supply impact on output and inflation?

Question No: 59 (Marks: 10)

a) If people suddenly lost faith in the banking system, what would happen to the demand for money? What impact would their loss of confidence have on inflation?

b) Why is inflation higher than money growth in high inflation countries and lower than money growth in low inflation countries?

FINAL TERM EXAMINATION
Fall 2009

Time: 120 min

Marks: 87

Question No: 1 (Marks: 1) - Please choose one

Core principles of Money and Banking include each of the following Except?

- ▶ **All people act rationally**
- ▶ Time has value
- ▶ Information is the basis for decisions
- ▶ Risk requires compensation

Question No: 2 (Marks: 1) - Please choose one

Which of the following is the final mode of payment?

- ▶ **Money**
- ▶ ATM
- ▶ Cheque
- ▶ Yet to discover

Question No: 3 (Marks: 1) - Please choose one

The one that you get from bank when you open your checking account is _____.

- ▶ **Debit card**
- ▶ Credit card
- ▶ Store value card
- ▶ Customer card

Question No: 4 (Marks: 1) - Please choose one

A Financial Intermediary:

- ▶ Is an agency that guarantees a loan
- ▶ Is involved in direct finance
- ▶ **Would be used in indirect finance**
- ▶ None of the given options

Question No: 5 (Marks: 1) - Please choose one

Which of the following is NOT a financial instrument?

- ▶ A share of General Motors stock
- ▶ **A tuition bill**
- ▶ A U.S. Treasury bond
- ▶ A home insurance policy

Question No: 6 (Marks: 1) - Please choose one

Which of the following is true for direct finance?

- ▶ Individuals (or firms) borrow directly from banks
- ▶ Individuals deposit savings directly in banks
- ▶ Firms deposit savings directly in banks
- ▶ **Individuals (or firms) borrow directly from the savers**

Question No: 7 (Marks: 1) - Please choose one

If you put \$1,000 per year into bank at 4% interest, how much would you have saved after 40 years?

- ▶ \$90,000
- ▶ \$98,826
- ▶ **\$82,286**
- ▶ \$85,880

Question No: 8 (Marks: 1) - Please choose one

If an investment will return \$1000 $\frac{1}{2}$ of the time and \$600 $\frac{1}{2}$ of the time, the expected value of the investment is:

- ▶ \$1,600
- ▶ **\$800**
- ▶ \$400
- ▶ \$900

Question No: 9 (Marks: 1) - Please choose one

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

- ▶ Spreading the risk
- ▶ Standard deviation
- ▶ **Hedging the risk**
- ▶ Variance

Question No: 10 (Marks: 1) - Please choose one

For a \$1000 one year discount bond with a price of \$975, the yield to maturity is which of the following?

- ▶ \$975/\$1000
- ▶ **$(\$1000 - \$975)/\$975$**
- ▶ $(\$1000 - \$975)/(\$1000)$
- ▶ \$1000/\$975

Question No: 11 (Marks: 1) - Please choose one

If YTM is less than the coupon rate the price of the bond is _____.

- ▶ **Greater than its face value**
- ▶ Lower than its face value
- ▶ Equals to its face value
- ▶ Insufficient information is given

Question No: 12 (Marks: 1) - Please choose one

Term structure of interest rate can be explained by which one of the following?

- ▶ Tax difference
- ▶ Expectation hypothesis
- ▶ Liquidity premium theory
- ▶ **Both by expectation hypothesis and liquidity premium theory**

Question No: 13 (Marks: 1) - Please choose one

The shape of the yield curve is usually:

- ▶ **Upward sloping**
- ▶ Downward sloping
- ▶ Upward sloping for shorter maturities and downward sloping for longer maturities
- ▶ Flat

Question No: 14 (Marks: 1) - Please choose one

An index number is a valuable tool because:

- ▶ The number by itself provides all of the useful information needed
- ▶ **The index provides a meaningful measurement scale to calculate percentage changes**
- ▶ The index is more stable than the data it reflects
- ▶ It does not require any calculations to compute percentage changes

Question No: 15 (Marks: 1) - Please choose one

Stock market bubbles can lead to:

- ▶ An inefficient allocation of resources
- ▶ **Stock market crashes**
- ▶ Patterns of volatile returns from the stock market
- ▶ All of the given options

Question No: 16 (Marks: 1) - Please choose one

The difference between a bank's reserves and their required reserves is equal to which of the following?

- ▶ Equity
- ▶ **Excess reserves**
- ▶ Net interest income
- ▶ None of the given options

Question No: 17 (Marks: 1) - Please choose one

Which one of the following is a way for a bank to deal with credit risk?

- ▶ **Add a mark-up to the cost of funds for a specific borrower based on the borrower's credit history**
- ▶ Charge all borrowers from the same industry an average rate for that industry
- ▶ Avoid making loans to borrowers from a broad spectrum

- ▶ Limit the number of loans made in any year

Question No: 18 (Marks: 1) - Please choose one

What matters most during a bank run is _____.

▶ **The liquidity of the bank**

- ▶ The solvency of the bank
- ▶ The number of depositors
- ▶ Safety of bank

Question No: 19 (Marks: 1) - Please choose one

Under the purchase and assumption method of dealing with a failed bank, the FDIC _____.

- ▶ Sells the failed bank to the Federal Reserve
- ▶ **Finds another bank to take over the insolvent bank**
- ▶ Takes over the day to day management of the bank
- ▶ Sells off the profitable loans of the failed bank in an open auction

Question No: 20 (Marks: 1) - Please choose one

Which of the following statements is incorrect?

- ▶ The higher the deposit insurance limit the higher the risk of moral hazard
- ▶ The lower the deposit insurance limit the lower the risk of moral hazard
- ▶ **Deposit insurance limits do not impact moral hazard, they impact adverse selection**
- ▶ Increasing the deposit insurance limits above \$100,000 would increase coverage for relatively few depositors

Question No: 21 (Marks: 1) - Please choose one

Stable inflation implies which of the following?

- ▶ That the rate of inflation averaged over many years is zero(0)
- ▶ **That inflation is predictable**
- ▶ Low rates of unemployment
- ▶ All of the given options

Question No: 22 (Marks: 1) - Please choose one

A bank can make new loans as long as it has:

- ▶ **Excess reserves**
- ▶ Required reserves
- ▶ Correspondent reserves
- ▶ Capital

Question No: 23 (Marks: 1) - Please choose one

Which one of the following is extended usually overnight to sound institutions on a very short-term basis?

- ▶ **Primary credit**
- ▶ Secondary credit
- ▶ Seasonal credit
- ▶ All of the given options

Question No: 24 (Marks: 1) - Please choose one

_____ refers to the instruments that are not directly under the control of central bank:

- ▶ Financial instruments
- ▶ **Intermediate instruments**
- ▶ Operating instruments
- ▶ All of the given options

Question No: 25 (Marks: 1) - Please choose one

The risk of "insolvency" is basically the risk of:

- ▶ Borrowers not paying off lenders in a timely fashion
- ▶ Machinery breakdowns
- ▶ Not being able to find a buyer for an asset
- ▶ **Asset value falling below liability value**

Question No: 26 (Marks: 1) - Please choose one

The machinery which is used by Bank for sorting and clearing checks breaks down. This is a manifestation of which of the following risk?

- ▶ Credit risk
- ▶ **Operational risk**
- ▶ Liquidity risk
- ▶ Market risk

Question No: 27 (Marks: 1) - Please choose one

In general, if the financial institution's balance sheet displays assets and liabilities that are "mis-matched" to a significant degree, the institution faces:

- ▶ Operational risk
- ▶ Sovereign risk
- ▶ **Interest rate risk**
- ▶ Liquidity risk

Question No: 28 (Marks: 1) - Please choose one

Everything else equal, if the growth rate of a country exceeds its sustainable rate:

- ▶ The central bank will keep interest rates low to keep the momentum
- ▶ **The central bank is likely to raise interest rates to slow the rate of growth**
- ▶ The central banks will identify the new rate as sustainable rate and try to maintain it
- ▶ The central bank is likely to lower the interest rate to offset this boom

Question No: 29 (Marks: 1) - Please choose one

The idea that central banks should be independent of political pressure is an idea that:

- ▶ Is included in Federal Reserve Act in 1913
- ▶ **Is relatively new**
- ▶ Every central bank was founded upon
- ▶ Became quite popular in the early 1900's

Question No: 30 (Marks: 1) - Please choose one

Which of the following type/s of transaction/s affect the balance sheets of both the central bank and the banking system?

- ▶ An open market operation
- ▶ Central bank's extension of a discount loan
- ▶ **All of the given options**
- ▶ A foreign exchange intervention

Question No: 31 (Marks: 1) - Please choose one

Which of the following statements is most appropriate?

▶ **Over the last 10 years the deviations between the target and market federal funds rate have decreased**

- ▶ The market federal funds rate equals the target federal funds rate
- ▶ Over the last 10 years the deviations between the target and market federal funds rate have increased
- ▶ There doesn't appear to be any relationship at all between the target and market federal fund rates

Question No: 32 (Marks: 1) - Please choose one

Currency-to-deposit ratio is a factor that affects the quantity of money. This factor is controlled by which of the following?

- ▶ Central bank
- ▶ Bank regulators
- ▶ Commercial banks
- ▶ **Non bank public**

Question No: 33 (Marks: 1) - Please choose one

Which one of the following statement is true for investment if all other factors are held constant?

- ▶ An investment with less risk should sell for a lower price and offer a lower return
- ▶ **An investment with more risk should sell for a lower price and offer a higher return**
- ▶ An investment with less risk should sell for a lower price and offer a higher return
- ▶ An investment with more risk should offer a lower return and sell for a higher price

Question No: 34 (Marks: 1) - Please choose one

An important component of bank capital is _____, an amount the bank set aside to cover potential losses from defaulted loans.

- ▶ Reserves
- ▶ **Loan loss reserves**
- ▶ Unappropriated profit
- ▶ Appropriated profit

Question No: 35 (Marks: 1) - Please choose one

If a customer makes a withdrawal of \$3 million, from where the bank will deduct this withdrawal?

- ▶ From capital
- ▶ From cash at hand
- ▶ **From reserves**
- ▶ Other assets

Question No: 36 (Marks: 1) - Please choose one

There are _____ type/s of life insurance.

- ▶ 1
- ▶ **2**
- ▶ 3
- ▶ 4

Question No: 37 (Marks: 1) - Please choose one

Which of the following provides a payment to the policyholder's beneficiaries in the event of the insured's death at any time during the policy term?

- ▶ Life insurance
- ▶ **Term life insurance**
- ▶ Whole life insurance
- ▶ Causality insurance

Question No: 38 (Marks: 1) - Please choose one

Which of the following are the primary uses of funds of Finance Company?

- ▶ Cash, loans, securities
- ▶ Corporate bonds, government bonds

- ▶ Commercial paper, bonds, mortgages
- ▶ **Bonds, bank loans, commercial paper**

Question No: 39 (Marks: 1) - Please choose one

Which of the following situation in a central bank can wreak havoc on the economic and financial system of a country?

- ▶ Weak fiscal policy
- ▶ Extreme political pressure
- ▶ Incompetence of the central banks
- ▶ **Extreme political pressure and incompetence of the central banks**

Question No: 40 (Marks: 1) - Please choose one

A central bank as banker's bank performs the following role(s):

- ▶ **Provide loan during a time of financial stress**
- ▶ Manage the payment system
- ▶ Oversee commercial banks and the financial system
- ▶ All of the given options

Question No: 41 (Marks: 1) - Please choose one

Which of the following are goals of the Central Bank?

- ▶ Low employment
- ▶ **Low, stable inflation**
- ▶ Low exchange rates
- ▶ All of the above

Question No: 42 (Marks: 1) - Please choose one

Which of the following is represented by the income statement of a bank?

- ▶ Financial position of a bank
- ▶ Financial position of board of directors
- ▶ **Performance of a bank**
- ▶ Performance of the employees of a bank

Question No: 43 (Marks: 1) - Please choose one

"Pooling the knowledge of a number of people yields better decisions than decision making by an individual" represent which of the following principle of central bank design?

- ▶ Independence
- ▶ **Decision making by committee**
- ▶ Accountability and transparency

- ▶ Policy framework

Question No: 44 (Marks: 1) - Please choose one

“Policy makers must be held accountable to the public they serve and clearly communicate their objectives, decisions and methods” represent which of the following principle of central bank design?

- ▶ Decision making by committee
- ▶ **Accountability and transparency**
- ▶ Policy framework
- ▶ Independence

Question No: 45 (Marks: 1) - Please choose one

Among the asset side of the balance sheet of a central bank which of the following item represent the function of central bank as Banker's bank?

- ▶ Currency
- ▶ Reserves
- ▶ Deposits of the Government
- ▶ **Loan to commercial bank**

Question No: 46 (Marks: 1) - Please choose one

Monetary base and quantity of money have _____

- ▶ **Direct relation**
- ▶ Inverse relation
- ▶ No relation
- ▶ Incomplete information

Question No: 47 (Marks: 1) - Please choose one

When the currency that people are holding loses value much rapidly, what will be the behavior of people?

- ▶ **The will spend money as quickly as possible**
- ▶ They will try to save the money for future
- ▶ They will not bother the value of money
- ▶ None of the given option

Question No: 48 (Marks: 1) - Please choose one

The _____ tells us why high inflation and high money growth go together, and explains why countries can have money growth that is higher than inflation

- ▶ Velocity of money

► Quantity theory of money

- Money growth
- Velocity growth

Question No: 49 (Marks: 1) - Please choose one

Nominal money demand raises with _____, as more income means more spending, which requires more money.

- Real income
- Nominal income**
- Cost of holding money
- Availability of substitutes

Question No: 50 (Marks: 1) - Please choose one

If inflation exceeds money growth keeping the velocity constant, what will be its effect on real money and aggregate demand?

- Real money balances will rise along with the aggregate demand
- Real money balances will fall along with the aggregate demand**
- Real money balances will rise while the aggregate demand will fall
- Real money balances will fall while the aggregate demand will rise

Question No: 51 (Marks: 1) - Please choose one

The rate will change if one of the following components of aggregate demand that is not sensitive to the real interest rate goes up (or down) or if potential output changes.

- Consumption
- Investment
- Net exports
- Govt. spending**

Question No: 52 (Marks: 1) - Please choose one

Which of the following factor(s) influence the sensitivity of current output to inflation?

- The strength of the effect of inflation on real money balances
- The extent to which monetary policymakers react to a change in current inflation
- The size of the response of aggregate demand to changes in the interest rate
- All of the given options**

Question No: 53 (Marks: 1) - Please choose one

Which of the following is (are) the reason(s) for inflation being persistent?

- When people expect inflation in the long run they cut the prices
- When people expect inflation in the long run they raise wages and

► When people expect inflation to continue, they adjust the prices and wages accordingly

► When people expect inflation to continue, they cut the prices and wages accordingly

Question No: 54 (Marks: 1) - Please choose one

If current output is lower than potential output, the resulting recessionary gap places pressure towards _____ on inflation, causing the short-run aggregate supply curve to shift downward.

- Right
- Left
- Upward
- **Downward**

Question No: 55 (Marks: 3)

Why the aggregate demand curve slopes down?

Question No: 56 (Marks: 5)

What will be the effect of following factors on bond demand curve?

- 1- Expected inflation
- 2- Expected return on stocks and other assets
- 3- Risk relative to alternatives

Question No: 57 (Marks: 5)

What is the source of a credit risk and how this risk could be managed?

Question No: 58 (Marks: 10)

a. Assume that:

Monetary Base (MB) = \$350 billion

Required Deposit Reserve Ratio (r_D) = 10%

Excess Reserve Ratio (ER/D) = 5%

Currency Ratio (C/D) = 25%

Calculate the total money supply (M) from this information.

b. Under the condition that the monetary base is \$350 billion but the required deposit reserve ratio (r_D) changes from 10% to 20%, while the excess reserve ratio (ER/D) remained at 5% and the currency ratio (C/D) remained at 25%, what is the total money supply (M) now?

c. What is the change in total money supply?

Question No: 59 (Marks: 10)

Explain in detail the tools of monetary policy in your own words.

FINALTERM EXAMINATION MGT411- Money & Banking

Marks: 87

Question No: 1 (Marks: 1) - Please choose one

Stock exchange is an example of:

- ▶ Financial companies
- ▶ Financial institution
- ▶ **Financial market**
- ▶ Bank

Question No: 2 (Marks: 1) - Please choose one

In electronic transfer the most common method is to send money through a system maintained by Federal reserve called _____.

- ▶ Fedex
- ▶ **Fedwire**
- ▶ Fedtransfer
- ▶ Fedmoney

Question No: 3 (Marks: 1) - Please choose one

Financial markets enable the transfer of risk by:

- ▶ Not allowing risk averse investors access to U.S. Treasury bond markets
- ▶ Making sure that higher default risk is offset by greater liquidity
- ▶ Allowing firms less willing to bear risk to transfer risk to others who are more willing to bear risk
- ▶ Enabling even unsophisticated investors to purchase highly complex investment

Question No: 4 (Marks: 1) - Please choose one

Risk sharing is the characteristic of which one of the following?

- ▶ Checks
- ▶ Checking accounts
- ▶ Money
- ▶ Bonds

Question No: 5 (Marks: 1) - Please choose one

Suppose there are two investments, A and B, investment A has low standard deviation where as investment B has high standard deviation. What would you think that most people will choose?

- ▶ Investment A
- ▶ Investment B
- ▶ Indifference between them
- ▶ Insufficient information to decide

Question No: 6 (Marks: 1) - Please choose one

If the annual interest rate is 6% (.06); the price of a one year Treasury bill would be:

▶ \$94.00

▶ \$94.33

▶ \$95.25

▶ \$96.10

Question No: 7 (Marks: 1) - Please choose one

If YTM equals the coupon rate the price of the bond is _____.

▶ Greater than its face value

▶ Lower than its face value

▶ Equals to its face value

▶ Insufficient information is given

Question No: 8 (Marks: 1) - Please choose one

The return on the bond is equal to which of the following?

▶ Coupon rate + rate of capital gains

▶ Current yield + rate of capital gains

▶ Coupon rate - rate of capital gains

▶ Current yield - rate of capital gains

Question No: 9 (Marks: 1) - Please choose one

An increase in the expected inflation shifts the bond supply to the _____

▶ Right

▶ Left

▶ No change

- ▶ None of the given options

Question No: 10 (Marks: 1) - Please choose one

Which of the following ratings shows “Highest quality and credit worthiness”?

- ▶ **AAA**

- ▶ AA

- ▶ BB

- ▶ A

Question No: 11 (Marks: 1) - Please choose one

Which of the following patterns of term structure occur most frequently?

- ▶ Ascending yield curve

- ▶ Descending yield curve

- ▶ **Flat yield curve**

- ▶ Humped yield curve

Question No: 12 (Marks: 1) - Please choose one

Which one of the following is **NOT** true for the expectation hypothesis?

- ▶ **Risk free interest rate can be computed**

- ▶ There is uncertainty in the future

- ▶ Identifying yield of bond today that will be available next year

- ▶ It focuses on risk free interest rate and the risk premium

Question No: 13 (Marks: 1) - Please choose one

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

- ▶ Short-term interest rates to rise sharply
- ▶ Short-term interest rates to stay near their current levels
- ▶ Short-term interest rates to drop sharply
- ▶ Short-term interest rates does not change

Question No: 14 (Marks: 1) - Please choose one

The Segmented Markets Theory of term structure suggests that:

- ▶ Investors have strong preferences for bonds of a particular maturity
- ▶ Investors have no preference for short-term bonds over long-term bonds, or vice versa
- ▶ Interest rates on long-term bonds strongly influence the demand for short-term bonds
- ▶ Bonds of different maturities are perfect substitutes for each other

Question No: 15 (Marks: 1) - Please choose one

Funds of depository institution are primarily used in which of the following?

- ▶ Corporate bonds, Government bonds, Stocks, Mortgage
- ▶ Cash, Loan, Securities
- ▶ Stocks, Government bonds, corporate bonds, commercial papers
- ▶ Commercial papers, Bonds

Question # 3 of 15 (Start time: 01:34:22 AM) Total Marks: 1
Which of the following is NOT a depository institution?

Select correct option:

- Commercial banks
- Savings institutions
- Credit unions
- Brokerage house

Question No: 16 (Marks: 1) - Please choose one

Which one of the following refers to the risk assessment and loss reimbursement guarantee by the individual risk experts of the relevant field?

- ▶ Underwriting process
- ▶ Insurance process
- ▶ Research process
- ▶ None of the given options

Question No: 17 (Marks: 1) - Please choose one

Regulators of credit unions are which of the following?

- ▶ Office of thrift Supervision
- ▶ State authorities
- ▶ National Credit Union Administration
- ▶ Federal Reserve System

Question No: 18 (Marks: 1) - Please choose one

Central banks perform all of the following functions **EXCEPT**:

- ▶ Issue currency
- ▶ Operate a payments system
- ▶ Control the availability of money and credit
- ▶ Manage fiscal policy

Question No: 19 (Marks: 1) - Please choose one

One advantage a central bank has over other businesses including banks is that_____.

- ▶ It receives all of its funding from the government
- ▶ It doesn't have stockholders
- ▶ It can control its balance sheet at its own will
- ▶ It doesn't have a board of directors

Question No: 20 (Marks: 1) - Please choose one

If required reserves are expressed by RR ; the required reserve rate by r_D and deposits by D; the simple deposit expansion multiplier is expressed as:

- ▶ $r_D D$
- ▶ $(1/r_D) D$
- ▶ $1/r_D$
- ▶ r_D times 10

Question No: 21 (Marks: 1) - Please choose one

The central bank makes which type of loans?

- ▶ Primary credit
- ▶ Secondary credit
- ▶ Seasonal credit
- ▶ All of the given options

Question No: 22 (Marks: 1) - Please choose one

According to Milton Friedman, central banks should set the money growth at:

- ▶ Constant rate
- ▶ Increasing rate
- ▶ Decreasing rate
- ▶ None of the given options

Question No: 23 (Marks: 1) - Please choose one

The quantity of money people hold for transactions purpose depends on which of the following?

- ▶ Their nominal income
- ▶ The cost of holding money
- ▶ The availability of substitutes
- ▶ All of the given options

Question No: 24 (Marks: 1) - Please choose one

Interest rate risk arises as a result of which one of the following consequences?

- ▶ It arises when banks make additional profit by using derivatives
- ▶ It arises when loan is not repaid
- ▶ It arises because of sudden demands of funds
- ▶ It arises when two sides of the balance sheet do not match up

Question No: 25 (Marks: 1) - Please choose one

Bank-X's outstanding loans all have fixed interest rates, with maturities in excess of two years. Bank-X's deposit liabilities all have shorter maturity-no more than six months. Bank-X most obviously is facing:

- ▶ Liquidity risk
- ▶ Operational risk
- ▶ Interest rate risk
- ▶ Credit risk

Question No: 26 (Marks: 1) - Please choose one

One thing that is true about economic policy in the U.S. is that:

- ▶ Monetary and Fiscal policy often times conflict
- ▶ Fiscal and monetary policy never conflict
- ▶ Monetary policy ultimately controls fiscal policy
- ▶ Fiscal policy ultimately controls monetary policy

Question No: 27 (Marks: 1) - Please choose one

Which of the following type/s of transaction/s affect the balance sheets of both the central bank and the banking system?

- ▶ An open market operation
- ▶ Central bank's extension of a discount loan
- ▶ All of the given options
- ▶ A foreign exchange intervention

Question No: 28 (Marks: 1) - Please choose one

The use of lagged reserve accounting usually makes the demand for reserves:

- ▶ Highly unpredictable to the point of volatility
- ▶ Nearly constant with hardly any change at all

► Predictable

- Subject to daily changes by the Fed

Question No: 29 (Marks: 1) - Please choose one

The portfolio demand for money reflects which of the following?

- The money we hold for our everyday transactions
- The money we hold to purchase stocks and bonds and other financial securities
- The portion of wealth people desire to hold in the form of money
- None of the given option**

Question No: 30 (Marks: 1) - Please choose one

The FOMC targets the federal funds rate, but if they are going to alter the course of the economy they must influence which one of the following?

- The money growth rate as well
- The long-term nominal interest rate as well
- The real interest rate as well**
- The nominal exchange rate as well

Question No: 31 (Marks: 1) - Please choose one

Which one of the following statement is true for investment if all other factors are held constant?

- An investment with less risk should sell for a lower price and offer a lower return
- An investment with more risk should sell for a lower price and offer a higher return
- An investment with less risk should sell for a lower price and offer a higher return**
- An investment with more risk should offer a lower return and sell for a higher price

Question No: 32 (Marks: 1) - Please choose one

Which of the following are without maturity dates?

- ▶ Zero coupon bonds
- ▶ Coupon securities
- ▶ Consols
- ▶ Preferred Bonds

Question No: 33 (Marks: 1) - Please choose one

Banking is a combination of businesses designed_____.

- ▶ To deliver Services
- ▶ To pool the savings
- ▶ To make the loans
- ▶ All of the given options

Question No: 34 (Marks: 1) - Please choose one

Well run banks have _____.

- ▶ High interest income
- ▶ High interest margin
- ▶ High interest income and high interest margin
- ▶ Low interest income and low interest margin

Question No: 35 (Marks: 1) - Please choose one

If a customer makes a withdrawal of \$3 million, from where the bank will deduct this withdrawal?

- ▶ From capital
- ▶ From cash at hand
- ▶ From reserves
- ▶ Other assets

Question No: 36 (Marks: 1) - Please choose one

Why banks do not like to meet their deposit outflows by contracting the asset side of the balance sheet.

- ▶ Because it will shrink the size of the bank
- ▶ Because it will shrink the size of the total assets
- ▶ Because it will increase the liabilities of the bank
- ▶ None of the given options

Question No: 37 (Marks: 1) - Please choose one

Which of the following technique is necessary for making profit in a bank?

- ▶ Interest rate on liabilities must be lower
- ▶ Interest rate on deposits must be higher
- ▶ Interest rate on deposits must be higher than the interest rate on the liabilities
- ▶ Interest rate on deposits must be lower than the interest rate on the liabilities

Question No: 38 (Marks: 1) - Please choose one

What is the impact of growth of international banking?

- ▶ It increase the competition in the banking market
- ▶ It increase the efficiency of banking market
- ▶ Profits are harder to come as borrowers and depositors have more options
- ▶ All of the given options

Question No: 39 (Marks: 1) - Please choose one

Managing _____ is a major concern for today's banks.

- ▶ Trading risk
- ▶ Interest rate risk
- ▶ Systematic risk
- ▶ Other risk

Question No: 40 (Marks: 1) - Please choose one

Which of the following provides a payment to the policyholder's beneficiaries in the event of the insured's death at any time during the policy term?

- ▶ Life insurance
- ▶ Term life insurance
- ▶ Whole life insurance
- ▶ Causality insurance

Question No: 41 (Marks: 1) - Please choose one

Which of the following is included in the government-sponsored enterprise?

- ▶ Small and Medium Enterprise (SME)
- ▶ House Building Finance Corporation (HBFC)
- ▶ Khushhali Bank
- ▶ All of the given options

Question No: 42 (Marks: 1) - Please choose one

Which of the following are the primary uses of funds of Finance Company?

- ▶ Cash, loans, securities
- ▶ Corporate bonds, government bonds
- ▶ Commercial paper, bonds, mortgages
- ▶ Bonds, bank loans, commercial paper

Question No: 43 (Marks: 1) - Please choose one

Which of the following situation in a central bank can wreak havoc on the economic and financial system of a country?

- ▶ Weak fiscal policy
- ▶ Extreme political pressure
- ▶ Incompetence of the central banks
- ▶ Extreme political pressure and incompetence of the central banks

Question No: 44 (Marks: 1) - Please choose one

Which function was the Central Bank originally designed to perform?

- ▶ Control the money supply
- ▶ Clearing checks
- ▶ Acting as lender of last resort
- ▶ All of the above

Question No: 45 (Marks: 1) - Please choose one

Which of the following are costs of high and/or unexpected inflation?

- ▶ Increased uncertainty
- ▶ Higher nominal interest rates
- ▶ Hurts net creditors
- ▶ All of the above

Question No: 46 (Marks: 1) - Please choose one

Which of the following side of a balance sheet represent that central bank is a government's bank?

- ▶ Asset side of the balance sheet
- ▶ Liabilities side of the balance sheet
- ▶ Equity side of the balance sheet
- ▶ The whole balance sheet

Question No: 47 (Marks: 1) - Please choose one

The legal requirement of reserve of a bank is called_____.

- ▶ Actual reserve
- ▶ Required reserve
- ▶ Excess reserve
- ▶ None of the given option

Question No: 48 (Marks: 1) - Please choose one

If a bank holds excess reserve it depends upon which of the following?

- ▶ Cost of holding the excess reserve
- ▶ Benefit of holding excess reserve
- ▶ Duration of holding excess reserve
- ▶ Cost and benefit of holding excess reserve

Question No: 49 (Marks: 1) - Please choose one

The number of times each rupee is used (per unit of time) in making payments is called the_____.

- ▶ Velocity of money
- ▶ Quantity of money

- ▶ Exchange of money
- ▶ Aggregate money

Question No: 50 (Marks: 1) - Please choose one

Portfolio demand for money goes up as the riskiness of the alternative _____

- ▶ Falls
- ▶ Rises
- ▶ Remain stable
- ▶ Cannot be determined

Question No: 51 (Marks: 1) - Please choose one

Monetary policy makers react to changes in current inflation by changing the _____

- ▶ Effective interest rate
- ▶ None of the given options
- ▶ Real interest rate
- ▶ Nominal interest rate

Question No: 52 (Marks: 1) - Please choose one

With a higher inflation target, the central bank will set a lower current _____ at every level of current inflation, shifting the monetary policy reaction curve to the right.

- ▶ Real interest rate

- ▶ Nominal interest rate
- ▶ Effective interest rate
- ▶ None of the given options

Question No: 53 (Marks: 1) - Please choose one

Who set the relationship between current inflation and real interest rate?

- ▶ Monetary policy makers
- ▶ Fiscal policy makers
- ▶ Budget makers
- ▶ Monetary policy maker or fiscal policy maker

Question No: 54 (Marks: 1) - Please choose one

Inflation falls and output rises until the economy returns to the point where current output _____ potential output and inflation equals the central bank's target.

- ▶ Equals
- ▶ Greater than
- ▶ Lower than
- ▶ Incomplete information

Question No: 55 (Marks: 3)

Why banks are there in an economy?

- Banks monitor Stabilizes the Economy
 - Control the availability of money and credit in so it can keep low inflation, high growth, and stability of the financial system
-
- A stable economy grows faster than an unstable one so bank plays vital role
 - Banks mitigate risk by taking deposits from a large number of clients and make numerous of loans , thus giving each depositor a small stake in each of the loans. So it provide economic of scale.

Question No: 56 (Marks: 5)

Discuss the impact of inflation shock on output and inflation.

Inflation shock is a change in the cost of producing output which causes the short run aggregate supply curve to shift.

It can be the result of change in the cost of raw materials or change in price of energy.

A positive inflation shock causes the short run aggregate supply curve to shift upward, and cause the inflation to rise

Question No: 57 (Marks: 5)

Discuss different types of insurance companies in detail.

Insurance companies.

Accept premiums, which they invest in securities and real estate in return for promise to compensate the policy holder incase of any events occurs like fire, accident, death etc.

There are two type of in Insurance companies

1. **Life insurance**
2. **Property and casualty insurance**

Which makes a payment to the insured's beneficiaries upon the death of the policy holder.

Company can get group insurance for their employees.

Whole life insurance

It is combination of life insurance and fix saving account.

We pay fix amount for a fixed period of time and in case of death of policy holder his/her beneficiary gets the money.

If the policyholder decides to discontinue the policy

Property and casualty Insurance

The policyholder pays fixed amount in exchange for protection to its property or assets.

For example. Insuring the building against the fire.

Insurance of house for theft.

auto insurance.

Question No: 58 (Marks: 10)

Discuss adjustments in short run equilibrium if aggregate demand increases.

Short-run equilibrium is determined by the intersection of the aggregate demand curve with the short-run aggregate supply curve.

At point output is greater the potential output

SARS start to move shift up and output start falling down.

Inflation will rise . if no action will be taken by policy maker at this stage then

Economy will move to point 3, where Current inflation will be greater then Target inflation

aggregate demand curve shifts to the right and inflation will rise

if policymakers committed to their original inflation target then they will

do something to get the economy back to the point where it started

government purchases will raise the real interest rate

increasing the real interest rate at every level of inflation will be achieved by compensating the shifting of monetary reaction curve to the left.

When the monetary policy reaction curve shifts, the aggregate demand curve also shifts with it.

The aggregate demand curve will shift to the left, and economy will be back to long-run equilibrium.

Question No: 59 (Marks: 10)

a) Distinguish between illiquidity and insolvency. Why is it difficult for a lender of last resort to tell insolvency from illiquidity?

Does the distinction matter?

Insolvent mean bankrupt or someone who has insufficient assets to cover their debts. Insolvent is not in position to pay its due bills

Illiquidity

In such a position where assets are not immediately or easily be converted into cash. Illiquid assets can be converted into cash,

but usually only after a time or at lower value.

Insolvent is in hard time or not an position to revive its working condition compared to insolvency illiquidity is position where business has enough assets only thing is not immediately available. Lender of last resort can take those assets as security to provide the funds.

b) A government is considering changing its deposit insurance system from one in which deposits are implicitly guaranteed

(that is, if a bank fails, people trust the government to put enough resources into the bank so that depositors will lose nothing)

to one with an explicit ceiling. What would be the impact of such a change on depositors? On bankers?

Bank will be having less money to business as they have to keep money as deposit.

Due to keeping more money as required reserve banks will not be in position to lend more loans.

It will reduce their business activity. Same time it will increase the liquidity of bank.

People will trust then banks more, due to guaranty form govt.

Due to shortage of lending more money to public bank might charge more keeping demand and supply rule in mind.

Cost of borrow from bank can increase.

MIDTERM EXAMINATION

Spring 2009

MGT411- Money & Banking (Session - 2)

Question No: 1 (Marks: 1) - Please choose one

Which of the following are without maturity dates?

- ▶ Zero coupon bonds
- ▶ Coupon securities
- ▶ **Consols**
- ▶ Preferred Bonds

Question No: 2 (Marks: 1) - Please choose one

Which of the following institution takes direct deposit from customer and gives loan to customer directly?

- ▶ Zarai Tarkaytee Bank LTD
- ▶ Soneri Bank
- ▶ Khushali Bank
- ▶ **Credit union**

Question No: 3 (Marks: 1) - Please choose one

_____ Mr. Ghazanfar obtains a home improvement loan from Allied Bank. This loan is:

- ▶ Mr. Ghazanfar's asset and the bank's liability
- ▶ Mr. Ghazanfar 's asset, but the liability belongs to the bank's depositors
- ▶ **Mr. Ghazanfar 's liability and an asset for the bank**
- ▶ Both Mr. Ghazanfar's and bank's liability

Question No: 4 (Marks: 1) - Please choose one

Components of M_1 **DO NOT** include which one of the following?

- ▶ Currency in the hands of public
- ▶ Demand deposits
- ▶ **Small denominations time deposit**
- ▶ Checkable deposits

Question No: 5 (Marks: 1) - Please choose one

Which of the following has created an opportunity for small investors to participate in economic activity?

- ▶ **Mutual funds**
- ▶ Small corporations
- ▶ Stock brokers
- ▶ Small investors cannot take part in economic activity

Question No: 6 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of financial institutions?

- ▶ Bank
- ▶ Securities firm
- ▶ **Stock exchange**
- ▶ Insurance company

Question No: 7 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

- ▶ Free-riding
- ▶ **Moral hazard**
- ▶ Adverse selection
- ▶ The Lemons market

Question No: 8 (Marks: 1) - Please choose one

_____ In a financial market where information is symmetric:

- ▶ **The same information would be known by both parties in a transaction**
- ▶ One party to a transaction knows information the other party does not
- ▶ The ability to obtain information is available to only one party
- ▶ All of the given options

Question No: 9 (Marks: 1) - Please choose one

When stock prices reflect fundamental values:

- ▶ All investors will experience capital gains

► All companies will have an easier task of obtaining financing for investment projects

► **The allocation of resources will be more efficient**

► The overall level of the stock market should move higher continuously

Question No: 10 (Marks: 1) - Please choose one

_____ An index number is a valuable tool because:

► The number by itself provides all of the useful information needed

► **The index provides a meaningful measurement scale to calculate percentage changes**

► The index is more stable than the data it reflects

► It does not require any calculations to compute percentage changes

Question No: 11 (Marks: 1) - Please choose one

_____ The concept of limited liability says **a stockholder** of a corporation:

► Is liable for the corporation's liabilities, but nothing more

► Cannot receive dividends that exceed their investment

► Cannot own more than five percent of any public corporation

- ▶ Cannot lose more than their investment

Question No: 12 (Marks: 1) - Please choose one

Other things remaining equal, the liquidity premium theory is based upon the idea that _____.

- ▶ Investors prefer long-term bonds
- ▶ **Investors prefer short-term bonds**
- ▶ Investors are indifferent between short-term and long-term bonds
- ▶ Investors prefer intermediate-term bonds

Question No: 13 (Marks: 1) - Please choose one

Which one of the following is **NOT** true for the expectation hypothesis?

- ▶ Risk free interest rate can be computed
- ▶ There is uncertainty in the future
- ▶ Identifying yield of bond today that will be available next year
- ▶ **It focuses on risk free interest rate and the risk premium**

Question No: 14 (Marks: 1) - Please choose one

_____ A
graph of the term structure with YTM on Y-axis and time to maturity on X-axis is called:

- ▶ Demand curve
- ▶ Supply curve
- ▶ **Yield curve**
- ▶ Leffer curve

Question No: 15 (Marks: 1) - Please choose one

	Bond A	Bond B
Maturity	5 years	10 years
Default risk	5%	5%
Tax rate	30%	30%
Yield	?	?

See the above table and choose the one option which is **NOT** correct about the yield of Bond A and Bond B?

▶ **Bond tax status and default rate are not the only factors that affect the yield of the two bonds**

▶ Bond A has different yield from that of Bond B because of change in maturity period

▶ Yields of both the bonds are not disturbed by maturity period

▶ Yield of Bond B depends on what people expect to happen in years to come

Question No: 16 (Marks: 1) - Please choose one

The _____ are an assessment of the creditworthiness of the corporate issuer.

- ▶ Bond yield
- ▶ **Bond ratings**
- ▶ Bond risk
- ▶ Bond price

Question No: 17 (Marks: 1) - Please choose one

The bond rating of a security refers to which of the followings?

- ▶ The size of the coupon payment relative to the face value
- ▶ The return a holder is likely to receive
- ▶ **The likelihood the lender/borrower will be repaid by the borrower/issuer**
- ▶ The years until the bond matures

Question No: 18 (Marks: 1) - Please choose one

_____ An
increase in the expected inflation shifts the bond demand to the

- ▶ **Right**
- ▶ Left
- ▶ No change
- ▶ None of the given options

Question No: 19 (Marks: 1) - Please choose one

_____ The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

- ▶ **6.25%**
- ▶ 7.50%
- ▶ 8.00%
- ▶ 5.00%

Question No: 20 (Marks: 1) - Please choose one

_____ If
the annual interest rate is 6% (.06); the price of a one year Treasury
bill would be:

- ▶ \$94.00
- ▶ **\$94.33**
- ▶ \$95.25

▶ \$96.10

Question No: 21 (Marks: 1) - Please choose one

The return on holding a bond till its maturity is called:

- ▶ Coupon rate
- ▶ **Yield to maturity**
- ▶ Current yield
- ▶ Fixed return

Question No: 22 (Marks: 1) - Please choose one

Which of the following best describes the relationship between Bond prices and yields?

- ▶ Move together directly
- ▶ Independent of each other
- ▶ **Move together inversely**
- ▶ Bond yields do not change since the coupon is fixed

Question No: 23 (Marks: 1) - Please choose one

_____ Mr.
A has a Treasury bill with a maturity period of 6 months where as Mr.

B has a bond with a maturity period of 1 year. Which of the following statement is **NOT** true for this situation?

- ▶ Mr. A has paid less price for his bond than Mr. B
- ▶ **Mr. A and Mr. B is a holder of zero coupon bond**
- ▶ Mr. A will receive payment at the end of the maturity period
- ▶ Mr. B will receive the payment at the end of the maturity period

Question No: 24 (Marks: 1) - Please choose one

What is true relationship between return and risk?

- ▶ Lower the risk greater the return
- ▶ **Greater the risk greater the return**
- ▶ Greater the risk no change in return
- ▶ No relationship between them

Question No: 25 (Marks: 1) - Please choose one

Sum of all the probabilities should be equal to which one of the following?

- ▶ Zero
- ▶ **One**
- ▶ Two

- ▶ Three

Question No: 26 (Marks: 1) - Please choose one

_____ measures the probability of worst outcome in any investment project.

- ▶ Variance
- ▶ Standard deviation
- ▶ **Value at risk**
- ▶ Hedging

Question No: 27 (Marks: 1) - Please choose one

The variance is generally less useful than the standard deviation on which of the following reasons?

- ▶ Variance is easier to calculate
- ▶ Variance is a measure of risk, whereas standard deviation is a measure of return
- ▶ **Variance isn't calculated in the same units as payoffs where as standard deviation is**
- ▶ Both are equally useful

Question No: 28 (Marks: 1) - Please choose one



_____ A
credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called:

- ▶ Simple loan
- ▶ Fixed-payment loan
- ▶ **Coupon bond**
- ▶ Discount bond

Question No: 29 (Marks: 1) - Please choose one

_____ Which of the following provides the greatest incentive to borrow?

- ▶ A high real interest rate
- ▶ **A low real interest rate**
- ▶ A high nominal interest rate
- ▶ A low nominal interest rate

Question No: 30 (Marks: 1) - Please choose one

_____ An investment carrying a current cost of \$130,000 is going to generate \$70,000 of revenue for each of the next three years. To calculate the internal rate of return we need to:

- ▶ Calculate the present value of each of the \$70,000 payments and multiply these and set this equal to \$130,000

► Take the present value of \$210,000 for three years from now and set this equal to \$130,000

► **Set the sum of the present value of \$70,000 for each of the next three years equal to \$130,000**

► Subtract \$130,000 from \$210,000 and set this difference equal to the interest rate

Question No: 31 (Marks: 1) - Please choose one

_____ A
borrower is promised a \$100 payment (including interest) one year from today. If the lender has an 8% opportunity cost of money, he should be willing to accept what amount today?

- Rs.100.00
- Rs.108.20
- **Rs.92.59**
- Rs.96.40

Question No: 32 (Marks: 1) - Please choose one

Which one of the following is **NOT** an example of Centralized exchange?

- New York Stock Exchange
- NASDAQ
- **Large exchanges in London**

- ▶ Large exchanges in Tokyo

Question No: 33 (Marks: 1) - Please choose one

Financial intermediaries provide small lender-savers all of the following advantages EXCEPT: <http://vustudents.ning.com>

- ▶ **Greater liquidity**
- ▶ Lower transaction cost
- ▶ Lower risk
- ▶ Higher return

Question No: 34 (Marks: 1) - Please choose one

The shares of McDonald Corporation stock are examples of:

- ▶ **A standardized financial instrument**
- ▶ A standardized financial liability instrument
- ▶ A non-standardized financial instrument
- ▶ A means of payment

Question No: 35 (Marks: 1) - Please choose one

Which of the following statements is NOT correct?

- ▶ **Banks are financial intermediaries**

- ▶ Financial intermediary involves in giving loan and accepting deposit
- ▶ All financial intermediaries are insurance companies
- ▶ Financial intermediaries increase the efficiency of the economy

Question No: 36 (Marks: 1) - Please choose one

Economic research shows:

- ▶ There is a strong inverse correlation between financial market development and economic growth
- ▶ There is weak relation between financial market development and economic growth around 0.25
- ▶ **There is a relatively strong positive correlation between financial market development and economic growth**
- ▶ There isn't any correlation between financial market development and economic growth

Question No: 37 (Marks: 1) - Please choose one

Which of the following statements is correct?

- ▶ If you can buy the same goods this year as you bought last year with less money the money supply decreased.
- ▶ **To purchase the same goods today that were purchased one year ago requires more money, there must have been inflation**

▶ To purchase the same goods today as one year ago requires less money, the money supply must have increased

▶ To purchase the same goods today that were purchased one year ago requires the same amount of money, there must have been inflation

Question No: 38 (Marks: 1) - Please choose one

The one that you get from bank when you open your checking account is _____.

- ▶ **Debit card**
- ▶ Credit card
- ▶ Store value card
- ▶ Customer card

Question No: 39 (Marks: 1) - Please choose one

Wealth can be held in number of other forms but we use to hold money because of which one of the following reason?

- ▶ It is the only mode of payment
- ▶ It is an asset
- ▶ **It is most liquid**
- ▶ It is the only store of value

Question No: 40 (Marks: 1) - Please choose one

Which of the following are used to monitor and stabilize the economy?

- ▶ Stock exchanges
- ▶ Commercial Banks
- ▶ **Central Banks**
- ▶ Financial institutions

Question No: 41 (Marks: 10)

“A financial instrument is a real or virtual document representing a legal agreement involving some sort of monetary value.” Discuss further on financial instruments by giving examples. Point out some of its uses and important characteristics.

ANSWER: Financial Instrument: Financial instrument is a written obligation of one party to transfer something of value to another party at a future date under certain conditions.

- By written obligation we mean that it is enforced by the government and this obligation is an important feature of a financial instrument.
- The party here can be an individual, company or a government
- Future date can be specified or when some event occurs.

Examples: Stocks, bonds, insurance etc are examples of financial instruments.

Characteristics of Financial Instruments: There are certain characteristics of financial instruments.

3. **Standardization:** It is a standardized agreement which enables reduction in costs of complexity. So because of this most financial instruments today are similar.
4. **Communicate Information:** Provide certain important information about the issuer which otherwise would have been difficult to gather for the lenders.

Value of Financial Instruments: The value of financial instruments depends on various factors.

- **Size:** Larger the promised payment more valuable is the financial instrument.
- **Timing:** The sooner the payment is made increases the value of financial instrument.
- **Risk:** A financial instrument is more valuable if there are greater possibilities that payment will be made.
- **Circumstances:** Payments made when needed the most makes the financial instrument more valuable.

Uses of Financial Instruments:

- **Store Of Value:**

Stocks: The stock holder is a part owner of the firm and receives part of its profits.

Bonds: A form of loan which promises to make repayment in future dates.

Bank loans: Borrowers obtains resources from lenders in exchange of promised payments.

- **Transfer of Risk:**

Insurance: Takes premium to assure payment under particular conditions (accident, death etc)

Future contracts: It is an agreement to exchange fixed quantity of a commodity or an asset at a fixed price. Transfer risk of price fluctuations.

Options: Gives holder the right to purchase fixed quantity of an underlying asset at predetermined price within a specific period.

MIDTERM EXAMINATION

Spring 2010

MGT411- Money & Banking (Session - 6)

Ref No:

Time: 60 min

Marks: 44

Student Info	
StudentID:	
Center:	OPKST
ExamDate:	5/28/2010 12:00:00 AM

For Teacher's Use Only

Q No.	1	2	3	4	5	6	7	8	Total
Marks									
Q No.	9	10	11	12	13	14	15	16	
Marks									
Q No.	17	18	19	20	21	22	23	24	
Marks									
Q No.	25	26	27	28	29	30	31	32	
Marks									

Question No: 1 (Marks: 1) - Please choose one

Financial instruments are evolved just as _____.

▶ **Currency**

- ▶ Stock
- ▶ Bond
- ▶ Commodity

Question No: 2 (Marks: 1) - Please choose one

Core principles of Money and Banking include each of the following Except?

▶ **All people act rationally**

- ▶ Time has value
- ▶ Information is the basis for decisions
- ▶ Risk requires compensation

Question No: 3 (Marks: 1) - Please choose one

Which of the following is a drawback of Fiat money?

- ▶ Fewer resources are used to produce money
- ▶ The quantity of money can be determined by rational human judgment
- ▶ **A corrupt Government might issue excessive amount of money thus causing inflation**
- ▶ Fiat money doesn't have any drawback

Question No: 4 (Marks: 1) - Please choose one

Which one of the following is **NOT** true for money?

- ▶ Money is an asset
- ▶ Money is a standard mode of payment
- ▶ **Money is same as wealth**
- ▶ Money is readily spend able asset

Question No: 5 (Marks: 1) - Please choose one

_____ A
derivative instrument:

- ▶ **Gets its value and payoff from the performance of the underlying instrument**
- ▶ Is a high risk financial instrument used by highly risk averse savers
- ▶ Comes into existence after the underlying instrument is in default

▶ Should be purchased prior to purchasing the underlying security

Question No: 6 (Marks: 1) - Please choose one

Financial intermediaries provide small lender-savers all of the following advantages EXCEPT:

- ▶ Greater liquidity
- ▶ Lower transaction cost
- ▶ Lower risk
- ▶ Higher return

Question No: 7 (Marks: 1) - Please choose one

The future value of \$100 left in a savings account earning 4.5% for two and a half years is best expressed by:

- ▶ $\$100(1.045)^{3/2}$
- ▶ $\$100(0.45)^{2.5}$
- ▶ **$\$100(1.045)^{2.5}$**
- ▶ $100 \times 2.5 \times (1.045)$

Question No: 8 (Marks: 1) - Please choose one

_____ is the today's value of a payment that is promised to be made in the future.

- ▶ None of the given options
- ▶ Future value
- ▶ **Present value**
- ▶ Agreed value

Question No: 9 (Marks: 1) - Please choose one

You receive a check for \$500 three years from today. The discounted present value of this \$500 is _____.

- ▶ $\$500/(1+i)$
- ▶ $\$500*(1+i)$
- ▶ **$\$500/(1+i)^3$**
- ▶ $\$500*(1+i)^3$

Question No: 10 (Marks: 1) - Please choose one

_____ If the internal rate of return from an investment is less than the opportunity cost of funds:

- ▶ Firm should make the investment
- ▶ **Firm should not make the investment**

- ▶ Firm should only make the investment using retained earnings
- ▶ None of the given options

Question No: 11 (Marks: 1) - Please choose one

_____ An investment carrying a current cost of \$130,000 is going to generate \$70,000 of revenue for each of the next three years. To calculate the internal rate of return we need to:

- ▶ Calculate the present value of each of the \$70,000 payments and multiply these and set this equal to \$130,000
- ▶ Take the present value of \$210,000 for three years from now and set this equal to \$130,000
- ▶ **Set the sum of the present value of \$70,000 for each of the next three years equal to \$130,000**
- ▶ Subtract \$130,000 from \$210,000 and set this difference equal to the interest rate

Question No: 12 (Marks: 1) - Please choose one

_____ The real interest rate is:

- ▶ The nominal rate plus the expected inflation rate
- ▶ **The nominal rate minus the expected inflation rate**
- ▶ The nominal interest rate divided by the Consumer Price Index

▶ The product of the nominal rate and the Consumer Price Index

Question No: 13 (Marks: 1) - Please choose one

What is true about the relationship between standard deviation and risk?

▶ **Greater the standard deviation greater will be the risk**

- ▶ Greater the standard deviation lower will be the risk
- ▶ Greater the standard deviation risk will be remained the same
- ▶ No relation between them

Question No: 14 (Marks: 1) - Please choose one

Most of the people among us are _____.

- ▶ Risk lovers
- ▶ Risk enhancers
- ▶ **Risk averse**
- ▶ Risk tolerating

Question No: 15 (Marks: 1) - Please choose one

_____ Mr.
A has a Treasury bill with a maturity period of 6 months where as Mr.

B has a bond with a maturity period of 1 year. Which of the following statement is **NOT** true for this situation?

- ▶ Mr. A has paid less price for his bond than Mr. B
- ▶ **Mr. A and Mr. B is a holder of zero coupon bond**
- ▶ Mr. A will receive payment at the end of the maturity period
- ▶ Mr. B will receive the payment at the end of the maturity period

Question No: 16 (Marks: 1) - Please choose one

_____ For a \$1000 one year discount bond with a price of \$975, the yield to maturity is which of the following?

- ▶ $\$975/\1000
- ▶ **$(\$1000 - \$975)/\$975$**
- ▶ $(\$1000 - \$975)/(\$1000)$
- ▶ $\$1000/\975

Question No: 17 (Marks: 1) - Please choose one

_____ Current yield is equal to which of the following?

- ▶ Price paid / yearly coupon payment
- ▶ Price paid *yearly coupon payment
- ▶ Yearly coupon payment / face value of bond

► **Yearly coupon payment / price paid**

Question No: 18 (Marks: 1) - Please choose one

The return on the bond is equal to which of the following?

- Coupon rate + rate of capital gains
- **Current yield + rate of capital gains**
- Coupon rate - rate of capital gains
- Current yield - rate of capital gains

Question No: 19 (Marks: 1) - Please choose one

_____ An increase in the expected inflation shifts the bond demand to the _____

- Right
- **Left**
- No change
- None of the given options

Question No: 20 (Marks: 1) - Please choose one

_____ Calculate tax implication on Bond yields. Consider a one year bond face value Rs.100 (issued by Government) with coupon rate of _____

6%.What is the income of bond that is received at maturity? (Tax rate is 30%).

▶ **Rs.6**

▶ Rs.1.80

▶ Rs.4.20

▶ Rs.7.80

Question No: 21 (Marks: 1) - Please choose one

_____ If the tax rate is higher than gap between yield on taxable and tax exempt bond?

▶ Shorter

▶ **Wider**

▶ No gap

▶ Any thing can be possible

Question No: 22 (Marks: 1) - Please choose one

_____ Expectation hypothesis focuses on which one of the following?

▶ Risk premium

▶ **Risk free interest rate**

▶ Yield to maturity

▶ None of the given options

Question No: 23 (Marks: 1) - Please choose one

Stock market bubbles can lead to:

- ▶ An inefficient allocation of resources
- ▶ **Stock market crashes**
- ▶ Patterns of volatile returns from the stock market
- ▶ All of the given options

Question No: 24 (Marks: 1) - Please choose one

Without the ability of financial intermediaries to pool the resources of small savers:

- ▶ Borrowers needing large amounts of money would find it less costly to obtain the funds
- ▶ The economy would likely grow faster
- ▶ People would likely save more
- ▶ **The risk associated with lending would increase**

Question No: 25 (Marks: 1) - Please choose one

The fact that a financial intermediary can use the same contract for many customers is an example of:

- ▶ Economies of Scope
- ▶ The Law of Diminishing Marginal Returns
- ▶ The Law of Increasing Opportunity Cost
- ▶ **Economies of Scale**

Question No: 26 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

- ▶ Free-riding
- ▶ **Moral hazard**
- ▶ Adverse selection
- ▶ The Lemons market

Question No: 27 (Marks: 1) - Please choose one

Financial instruments are used to transfer which of the following?

- ▶ **Both Risk and Resources**
- ▶ Risk
- ▶ Resources
- ▶ Mortgages

Question No: 28 (Marks: 1) - Please choose one

_____ A
change in the interest rate:

► **Has a larger impact on the present value of a payment to be made far into the future than one to be made sooner**

► Will not have a difference on the present value of two equal payments to be made at different times

► Has a smaller impact on the present value of a payment to be made far into the future than one to be made sooner

► None of the given options

Question No: 29 (Marks: 3)

Find out YTM of 1 year 10% coupon bond selling at \$120. (Face value of bond = \$100).

Answer:

solution:

according to the formula

YTM = yearly coupon payment / price paid

So

$$\$10 / (1 + i) + \$100 / (1 + i) =$$

$$\$10\%/120$$

$$= 8.333$$

Question No: 30 (Marks: 3)

“Financial intermediary reduce costs”. How?

Financial intermediary is naturally an foundations that make easy the control of funds between lenders and borrowers not directly that acts as the middle man between investors and firms raising fund is called financial intermediary.

Financial intermediary will reduce transaction cost because they are specializing in the issuance of standardized securities.

Question No: 31 (Marks: 5)

Define financial intermediaries. What functions the financial intermediaries performs regarding savings?

Answer: Financial intermediary is naturally an foundations that make easy the control of funds between lenders and borrowers not directly that acts as the middle man between investors and firms raising fund is called financial intermediary.

Financial intermediary will reduce transaction cost because they are specializing in the issuance of standardized securities

1. Maturity transformation

Converting short-term liabilities to long term assets just like banks deal with large number of lenders and borrowers, and settle their conflicting needs

2. **Risk transformation**

Converting risky investments into relatively risk-free ones For example ending to multiple borrowers to spread the risk

3. **Convenience**

Matching small deposits with large loans and large deposits with small loans

Question No: 32 (Marks: 5)

Briefly explain the factors which shift the bond demand.

Answer: Factors that shift Bond Demand

- **Expected inflation**

If **expected inflation fall** then demand for bond increases, curve of bond demand shift to right.

- **Expected return on bonds**

If the expected return on bonds rise then people will invest money more ,as result demand for bond will rise

- **Risk relative to alternatives**

If other stocks are more risky then demand for bonds increases then shift the demand curve bond

Liquidity of bonds

If liquidity of bonds becomes more than other stocks or investments then shift the demand curve bond

- **Wealth**

As the consumer received more wealth their demands for good raise. They will invest their money in market result will be economy

grows and bond prices will increase.

MIDTERM EXAMINATION

Spring 2010

MGT411- Money & Banking (Session - 3)

Time: 60 min

Marks: 44

Student Info	
StudentID:	
Center:	
ExamDate:	

For Teacher's Use Only									
Q No.	1	2	3	4	5	6	7	8	Total
Marks									
Q No.	9	10	11	12	13	14	15	16	
Marks									
Q No.	17	18	19	20	21	22	23	24	

Marks									
Q No.	25	26	27	28	29	30	31	32	
Marks									

Question No: 1 (Marks: 1) - Please choose one

Financial instruments are evolved just as _____.

- ▶ Currency
- ▶ Stock
- ▶ Bond
- ▶ Commodity

Question No: 2 (Marks: 1) - Please choose one

Price of 100 goods under the barter system would be _____.

- ▶ 5050
- ▶ 19800
- ▶ 4950
- ▶ 20200

Reference:

$$=n(n-1)/2$$

$$=100(100-1)/2$$

$$=100(99)/2$$

$$=9900/2$$

$$=4950$$

Question No: 3 (Marks: 1) - Please choose one

Wealth can be held in number of other forms but we use to hold money because of which one of the following reason?

- ▶ It is the only mode of payment
- ▶ It is an asset
- ▶ It is most liquid
- ▶ It is the only store of value

Question No: 4 (Marks: 1) - Please choose one

_____ A
decrease in the number of credit cards issued:

- ▶ Has the same impact on the economy as the Federal Reserve supplying less money
- ▶ Reduces the money supply since credit cards act like money
- ▶ Would probably lower the amount in M3 but likely not M1
- ▶ None of the given options

Question No: 5 (Marks: 1) - Please choose one

Risk sharing is the characteristic of which one of the following?

- ▶ Checks

- ▶ Checking accounts
- ▶ Money
- ▶ Bonds

Question No: 6 (Marks: 1) - Please choose one

_____ is the today's value of a payment that is promised to be made in the future.

- ▶ None of the given options
- ▶ Future value
- ▶ Present value
- ▶ Agreed value

Question No: 7 (Marks: 1) - Please choose one

Which one of the following is the procedure of finding out the Present Value (PV)?

- ▶ Discounting
- ▶ Compounding
- ▶ Time value of money
- ▶ Bond pricing

Question No: 8 (Marks: 1) - Please choose one

Asma deposits funds into a CD account at her bank. The CD account has an annual interest of 4.0%. If Asma leaves the funds in the CD account for entire two years she will have \$1081.60. What amount is Asma depositing?

- ▶ \$960.60
- ▶ \$900.00
- ▶ \$1005.00
- ▶ \$1000.00

Question No: 9 (Marks: 1) - Please choose one

You receive a check for \$500 three years from today. The discounted present value of this \$500 is _____.

- ▶ $\$500/(1+i)$
- ▶ $\$500*(1+i)$
- ▶ $\$500/(1+i)^3$
- ▶ $\$500*(1+i)^3$

Question No: 10 (Marks: 1) - Please choose one

What will be the effect on the present value if we double the future value of the payment?

- ▶ It will decrease the value by one-half

- ▶ It will increase the value by one-half
- ▶ It will equally increase the value i.e. doubles the value
- ▶ It will have no effect on the value

Question No: 11 (Marks: 1) - Please choose one

The variance is generally less useful than the standard deviation on which of the following reasons?

- ▶ Variance is easier to calculate
- ▶ Variance is a measure of risk, whereas standard deviation is a measure of return
- ▶ Variance isn't calculated in the same units as payoffs where as standard deviation is
- ▶ Both are equally useful

Question No: 12 (Marks: 1) - Please choose one

_____ A
risk-averse investor will:

- ▶ Always prefer an investment with a lower expected return
- ▶ Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty
- ▶ Always require a certain return
- ▶ Always focus exclusively on the expected return

Question No: 13 (Marks: 1) - Please choose one

The return on the bond is equal to which of the following?

- ▶ Coupon rate + rate of capital gains
- ▶ Current yield + rate of capital gains
- ▶ Coupon rate - rate of capital gains
- ▶ Current yield - rate of capital gains

Question No: 14 (Marks: 1) - Please choose one

_____ An increase in the expected inflation shifts the bond demand to the _____

- ▶ Right
- ▶ Left
- ▶ No change
- ▶ None of the given options

Question No: 15 (Marks: 1) - Please choose one

The bond rating of a security refers to which of the followings?

- ▶ The size of the coupon payment relative to the face value
- ▶ The return a holder is likely to receive

▶ The likelihood the lender/borrower will be repaid by the borrower/issuer

▶ The years until the bond matures

Question No: 16 (Marks: 1) - Please choose one

The _____ are an assessment of the creditworthiness of the corporate issuer.

▶ Bond yield

▶ Bond ratings

▶ Bond risk

▶ Bond price

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Which of the following statement is true for the given sentence, "that tax affects the bond return"?

▶ Because only interest income they receive from bond is taxable

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Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

- ▶ Higher the tax rate wider the gap between the yield of taxable and tax exempt bond
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_____ If the tax rate is higher than gap between yield on taxable and tax exempt bond?

- ▶ Shorter
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- ▶ No gap
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Question No: 20 (Marks: 1) - Please choose one

The liquidity premium theory suggests that yield curves should usually be:

- ▶ Up-sloping
- ▶ Inverted
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- ▶ Up-sloping through year 1, then flat thereafter

Question No: 21 (Marks: 1) - Please choose one

_____ A
share of common stock represents _____.

- ▶ A claim from a lender to a borrower
- ▶ A share in the company's assets
- ▶ A share of ownership of the company
- ▶ An unlimited liability to the owner of the stock

Question No: 22 (Marks: 1) - Please choose one

You start with a \$1000 portfolio; it loses 40% over the next year, the following year it gains 50% in value; At the end of two years the worth of your portfolio will be:

- ▶ \$900
- ▶ \$600

- ▶ \$1000
- ▶ \$1100

Question No: 23 (Marks: 1) - Please choose one

_____ If
information in a financial market is asymmetric, this means:

- ▶ Borrowers and lenders have the same information
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Which of the following is ***NOT*** an example of financial institutions?

- ▶ Bank
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- ▶ Both Mr. Ghazanfar's and bank's liability

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_____ The interest rate used in the present value calculation is often referred as:

- ▶ Discount rate
- ▶ Inflation rate
- ▶ Nominal rate
- ▶ Deflation rate

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_____ If there is a decrease in the expected future interest rate, what will be its affect on bond?

- ▶ Bond will be less attractive
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Question No: 29 (Marks: 3)

_____ Find out YTM of 1 year 10% coupon bond selling at \$120. (Face value of bond = \$100).

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_____ Discuss briefly the facts about term Structure.

Question No: 31 (Marks: 5)

_____ You are the founder of an automobile company. Describe the idiosyncratic & systematic risks that your company faces.

Question No: 32 (Marks: 5)

Discuss bubbles in your own word.

MIDTERM EXAMINATION

Spring 2010

MGT411- Money & Banking (Session - 6)

Time: 60 min

Marks: 44

Question No: 1 (Marks: 1) - Please choose one

Price of 100 goods under the barter system would be _____.

- ▶ 5050
- ▶ 19800
- ▶ 4950
- ▶ 20200

Question No: 2 (Marks: 1) - Please choose one

In electronic transfer the most common method is to send money through a system maintained by Federal reserve called _____.

- ▶ Fedex

▶ Fedwire

▶ Fedtransfer

▶ Fedmoney

Question No: 3 (Marks: 1) - Please choose one

Which one of the following is the primary cause of inflation?

▶ Decreased money supply

▶ Increased money supply

▶ Decreased interest rates

▶ Increased purchasing power

Question No: 4 (Marks: 1) - Please choose one

Which of the following is true for direct finance?

▶ Individuals (or firms) borrow directly from banks

▶ Individuals deposit savings directly in banks

▶ Firms deposit savings directly in banks

▶ Individuals (or firms) borrow directly from the savers

Question No: 5 (Marks: 1) - Please choose one

What will be the Future Value (FV) of \$1000 in 5 years at 5% interest rate?

▶ \$1300.00

▶ \$1276.28

▶ \$1999.99

▶ \$1500.52

Question No: 6 (Marks: 1) - Please choose one

Which one of the following is the procedure of finding out the Present Value (PV)?

▶ Discounting

▶ Compounding

▶ Time value of money

▶ Bond pricing

Question No: 7 (Marks: 1) - Please choose one

You receive a check for \$100 two years from today. The discounted present value of this \$100 is:

▶ $\$100/(1+i)$

▶ $\$100*(1+i)^2$

▶ $\$100*(1+i)$

▶ $\$100/(1+i)^2$

Question No: 8 (Marks: 1) - Please choose one

Which of the following represents the fisher's equation?

- ▶ Nominal interest rate = real interest rate + inflation
- ▶ Nominal interest rate + inflation = real interest rate
- ▶ Nominal interest rate = real interest rate - inflation
- ▶ Nominal interest rate = real interest rate / inflation

Question No: 9 (Marks: 1) - Please choose one

What will be the result of the difference of real and nominal interest rate?

- ▶ The cost of borrowing
- ▶ The effect of inflation
- ▶ The price of bonds
- ▶ The return of bonds

Question No: 10 (Marks: 1) - Please choose one

Sum of all the probabilities should be equal to which one of the following?

- ▶ Zero
- ▶ One
- ▶ Two
- ▶ Three

Question No: 11 (Marks: 1) - Please choose one

The coupon rate of bond:

- ▶ Is another term for the current yield
- ▶ Is another term for the yield to maturity
- ▶ Could not be calculated for a zero-coupon bond
- ▶ None of the given options

Question No: 12 (Marks: 1) - Please choose one

Current yield did NOT measure which of the following?

- ▶ Return arises from coupon payment
- ▶ Capital gain and loss
- ▶ Return arises from bond holding till maturity
- ▶ All of the given options

Question No: 13 (Marks: 1) - Please choose one

An increase in the expected inflation shifts the bond supply to the

- ▶ Right
- ▶ Left
- ▶ No change
- ▶ None of the given options

Question No: 14 (Marks: 1) - Please choose one

The lowest rating for an investment grade bond assigned by Moody's is:

- ▶ BBB
- ▶ ABB
- ▶ Baa
- ▶ Aaa

Question No: 15 (Marks: 1) - Please choose one

In the long run, the yield curve tends to be which of the following?

- ▶ Upward sloping
- ▶ Downward sloping
- ▶ Nearly vertical
- ▶ Nearly horizontal

Question No: 16 (Marks: 1) - Please choose one

Common stocks (or corporate stocks):

- ▶ Are short term debt instruments
- ▶ Entitle the holder to contractual payments
- ▶ Were poor investments over the period 1982-1996
- ▶ Allows the holder to share in the earnings of the firm

Question No: 17 (Marks: 1) - Please choose one

A bank can usually offer a saver a higher return for the same risk because:

- ▶ The bank can usually purchase assets at a higher cost than any one saver
- ▶ The bank can pool the resources of larger savers and purchase lower denominated assets
- ▶ Economies of scale can be applied by the bank in its purchase of assets
- ▶ None of the given options

Question No: 18 (Marks: 1) - Please choose one

If information in a financial market is asymmetric, this means:

- ▶ Borrowers and lenders have the same information
- ▶ Lenders lack any information
- ▶ Borrowers and lenders have perfect information
- ▶ Borrowers would have more information than lenders

Question No: 19 (Marks: 1) - Please choose one

Which of the following is true of a nation's central bank?

- ▶ It makes important decisions about the nation's tax and public spending policies

▶ It lends only to the nation's largest and most important business firms

▶ It has many interactions with the nation's citizens and businesses

▶ It is responsible for conducting the nation's monetary policy

Question No: 20 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

▶ Free-riding

▶ Moral hazard

▶ Adverse selection

▶ The Lemons market

Question No: 21 (Marks: 1) - Please choose one

Often a bank will require a loan officer to make personal visits on customers with loans outstanding. This is encouraged because:

▶ The bank worries about competitors trying to steal their customers

▶ The bank wants to make sure the business is still there

▶ The bank likely has excess funds available and hopes to make another loan to the business

▶ This is an effective monitoring technique and should reduce moral hazard

Question No: 22 (Marks: 1) - Please choose one

Which of the following represents the history of money uptill the modern age?

▶ Gold/silver coins____ Paper Currency____ Electronic Fund Transfer

▶ Paper Currency____ Gold/Silver coins____ Electronic Fund Transfer

▶ Electronic Fund Transfer____ Paper Currency ____ Gold/silver coins

▶ Gold/silver coins____ Electronic Fund Transfer____ Paper currency

Question No: 23 (Marks: 1) - Please choose one

Mr. A makes payment to Mr. B in exchange of household furniture in the form of cheques. Which of the following is true for this situation?

▶ It is final payment made by Mr. A

▶ It's not a final payment

▶ It may not be accepted as payment

▶ Cheques are not form of money

Question No: 24 (Marks: 1) - Please choose one

Components of M1 DO NOT include which one of the following?

- ▶ Currency in the hands of public
- ▶ Demand deposits
- ▶ Small denominations time deposit
- ▶ Checkable deposits

Question No: 25 (Marks: 1) - Please choose one

A change in the interest rate:

▶ Has a larger impact on the present value of a payment to be made far into the future than one to be made sooner

▶ Will not have a difference on the present value of two equal payments to be made at different times

▶ Has a smaller impact on the present value of a payment to be made far into the future than one to be made sooner

▶ None of the given options

Question No: 26 (Marks: 1) - Please choose one

Which of the following statement is true about the relationship between bond ,coupon payment and interest?

▶ Coupon payments fall, the interest rate falls, and Bond price will rise

▶ Coupon payments rise, the interest rate falls, and Bond price will rise

▶ Coupon payments fall, the interest rate falls, and Bond price will fall

▶ Coupon payments rise, the interest rate falls, and Bond price will fall

Question No: 27 (Marks: 1) - Please choose one

Which of the following are without maturity dates?

▶ Zero coupon bonds

▶ Coupon securities

▶ Consols

▶ Preferred Bonds

Question No: 28 (Marks: 1) - Please choose one

Zero-Coupon Bonds are pure discount bonds since they sell at a price _____.

▶ Equal their face value

▶ Below their face value

▶ Above their face value

▶ None of the given options

Question No: 29 (Marks: 3)

Differentiate between yield to maturity and current yield.

Yield To Maturity

The most useful measure of the return on holding a bond is called the yield to maturity (YTM).

This is the yield bondholders receive if they hold the bond to its maturity when the final principal payment is made

It can be calculated from the present value formula.

The value of i that solves this equation is the yield to maturity

If the price of the bond is \$100, then the yield to maturity equals the coupon rate.

Since the price rises as the yield falls, when the price is above \$100, the yield to maturity must be below the coupon rate.

Current yield

Current yield is a commonly used, easy-to-compute measure of the proceeds the bondholder receives for making a loan.

It is the yearly coupon payment divided by the price

The current yield measures that part of the return from buying the bond that arises solely from the coupon payments

Question No: 30 (Marks: 3)

Discuss briefly the facts about term Structure.

Facts of Term Structure

Interest Rates of different maturities tend to move together

Yields on short-term bond are more volatile than yields on long-term bonds

Long-term yields tend to be higher than short-term yields.

Question No: 31 (Marks: 5)

Briefly discuss short term ratings by Pakistan Credit Rating Agency.

Pakistan Credit Rating Agency.

A1+: highest capacity for timely repayment

A1: Strong capacity for timely repayment

A2: satisfactory capacity for timely repayment may be susceptible to adverse economic conditions

A3: an adequate capacity for timely repayment. More susceptible to adverse economic condition

B: timely repayment is susceptible to adverse changes in business, economic, or financial conditions

C: an inadequate capacity to ensure timely repayment

D: high risk of default or which are currently in default

Question No: 32 (Marks: 5)

Define stock and also discuss its important characteristics.

Stock & its importance

Stocks provide a key instrument for holding personal wealth as well as a way to diversify, spreading and reducing the risks that we face. For companies, they are one of several ways to obtain financing. Additionally, Stocks and stock markets are one of the central links between the financial world and the real economy.

Common Stock

Valuing Stock

Stocks, also known as common stock or equity, are shares in a firm's ownership

From their early days, stocks had two important characteristics that today are taken for granted:

The shares are issued in small denominations and the shares are transferable

Until recently, stockowners received a certificate from the issuing company, but now it is a computerized process where the shares are registered in the names of brokerage firms that hold them on the owner's behalf.

The ownership of common stock conveys a number of rights

A stockholder is entitled to participate in the shares of the enterprise, but this is a residual claim meaning the leftovers after all other creditors have been paid

MIDTERM EXAMINATION

Spring 2010

MGT411- Money & Banking (Session - 3)

Time: 60 min

Marks: 44

Student Info	
StudentID:	
Center:	
ExamDate:	

For Teacher's Use Only									
Q No.	1	2	3	4	5	6	7	8	Total
Marks									
Q No.	9	10	11	12	13	14	15	16	
Marks									
Q No.	17	18	19	20	21	22	23	24	
Marks									
Q No.	25	26	27	28	29	30	31	32	
Marks									

Question No: 1 (Marks: 1) - Please choose one

Financial instruments are evolved just as _____.

- ▶ Currency
- ▶ Stock
- ▶ **Bond**
- ▶ Commodity

Question No: 2 (Marks: 1) - Please choose one

Price of 100 goods under the barter system would be _____.

- ▶ 5050
- ▶ 19800
- ▶ **4950**
- ▶ 20200

Question No: 3 (Marks: 1) - Please choose one

Wealth can be held in number of other forms but we use to hold money because of which one of the following reason?

- ▶ It is the only mode of payment
- ▶ It is an asset

- ▶ **It is most liquid**
- ▶ It is the only store of value

Question No: 4 (Marks: 1) - Please choose one

_____ **A**
decrease in the number of credit cards issued:

- ▶ **Has the same impact on the economy as the Federal Reserve supplying less money**
- ▶ Reduces the money supply since credit cards act like money
- ▶ Would probably lower the amount in M3 but likely not M1
- ▶ None of the given options

Question No: 5 (Marks: 1) - Please choose one

_____ Risk sharing is the characteristic of which one of the following?

- ▶ Checks
- ▶ Checking accounts
- ▶ Money
- ▶ **Bonds**

Question No: 6 (Marks: 1) - Please choose one

_____ is the today's value of a payment that is promised to be made in the future.

- ▶ None of the given options
- ▶ Future value
- ▶ **Present value**
- ▶ Agreed value

Question No: 7 (Marks: 1) - Please choose one

Which one of the following is the procedure of finding out the Present Value (PV)?

- ▶ **Discounting**
- ▶ Compounding
- ▶ Time value of money
- ▶ Bond pricing

Question No: 8 (Marks: 1) - Please choose one

Asma deposits funds into a CD account at her bank. The CD account has an annual interest of 4.0%. If Asma leaves the funds in the CD account for entire two years she will have \$1081.60. What amount is Asma depositing?

- ▶ \$960.60

- ▶ \$900.00
- ▶ \$1005.00
- ▶ **\$1000.00**

Question No: 9 (Marks: 1) - Please choose one

You receive a check for \$500 three years from today. The discounted present value of this \$500 is _____.

- ▶ $\$500/(1+i)$
- ▶ $\$500*(1+i)$
- ▶ **$\$500/(1+i)^3$**
- ▶ $\$500*(1+i)^3$

Question No: 10 (Marks: 1) - Please choose one

What will be the effect on the present value if we double the future value of the payment?

- ▶ It will decrease the value by one-half
- ▶ It will increase the value by one-half
- ▶ **It will equally increase the value i.e. doubles the value**
- ▶ It will have no effect on the value

Question No: 11 (Marks: 1) - Please choose one

The variance is generally less useful than the standard deviation on which of the following reasons?

- ▶ Variance is easier to calculate
- ▶ Variance is a measure of risk, whereas standard deviation is a measure of return
- ▶ **Variance isn't calculated in the same units as payoffs where as standard deviation is**
- ▶ Both are equally useful

Question No: 12 (Marks: 1) - Please choose one

_____ A
risk-averse investor will:

- ▶ Always prefer an investment with a lower expected return
- ▶ **Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty**
- ▶ Always require a certain return
- ▶ Always focus exclusively on the expected return

Question No: 13 (Marks: 1) - Please choose one

_____ The return on the bond is equal to which of the following?

- ▶ **Coupon rate + rate of capital gains**
- ▶ Current yield + rate of capital gains

- ▶ Coupon rate - rate of capital gains
- ▶ Current yield - rate of capital gains

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Question No: 32 (Marks: 5)

Discuss bubbles in your own word.

MIDTERM EXAMINATION

Spring 2010

MGT411- Money & Banking (Session - 5)

Question No: 1 (Marks: 1) - Please choose one

Given a choice between two investments with the same expected payoff:

- ▶ Most people will select the one with the highest variance
- ▶ Most people will opt for the one with the higher standard deviation
- ▶ Most people will be indifferent since the expected payoffs are the same
- ▶ Most people will choose the one with the lower standard deviation

Question No: 2 (Marks: 1) - Please choose one

For the valuation of goods and for quoting prices under the barter system the general formula which is used for n goods is _____.

- ▶ $n(n+1)/2$
- ▶ $n(n-1)*2$
- ▶ $n(n-1)/2$
- ▶ $(n-1)/2$

Question No: 3 (Marks: 1) - Please choose one

_____ are organized to eliminate the need of costly information gathering.

- ▶ Central banks
- ▶ Commercial banks
- ▶ Stock exchanges
- ▶ Insurance companies

Question No: 4 (Marks: 1) - Please choose one

Considering the value of a financial instrument, the longer the time until the promised payment is made:

- ▶ The less valuable is the promise to make it since time is valuable
- ▶ The greater the risk, therefore the promise has greater value
- ▶ The more valuable is the promise to make it
- ▶ It has no effect on the value of instrument

Question No: 5 (Marks: 1) - Please choose one

The real interest rate is:

- ▶ The nominal rate plus the expected inflation rate
 - ▶ The nominal rate minus the expected inflation rate
 - ▶ The nominal interest rate divided by the Consumer Price Index
 - ▶ The product of the nominal rate and the Consumer Price Index
- Index

Question No: 6 (Marks: 1) - Please choose one

Which of the following is NOT a non depository institution?

- ▶ House Building Finance Corporation
- ▶ Zarai Tarkaytee Bank LTD
- ▶ United Bank LTD
- ▶ Khushali Bank

Question No: 7 (Marks: 1) - Please choose one

Financial intermediaries provide small lender-savers all of the following advantages EXCEPT:

- ▶ Greater liquidity
- ▶ Lower transaction cost
- ▶ Lower risk
- ▶ Higher return

Question No: 8 (Marks: 1) - Please choose one

What will be the Future Value (FV) of \$1000 in 5 years at 5% interest rate?

- ▶ \$1300.00
- ▶ \$1276.28
- ▶ \$1999.99
- ▶ \$1500.52

Question No: 9 (Marks: 1) - Please choose one

_____ If the factor time (n) is longer then:

- ▶ Present value will be lower
- ▶ Present value will be higher
- ▶ Interest rate will be lower
- ▶ Time has no effect on present value

Question No: 10 (Marks: 1) - Please choose one

_____ An investment carrying a current cost of \$130,000 is going to generate \$70,000 of revenue for each of the next three years. To calculate the internal rate of return we need to:

- ▶ Calculate the present value of each of the \$70,000 payments and multiply these and set this equal to \$130,000

► Take the present value of \$210,000 for three years from now and set this equal to \$130,000

► Set the sum of the present value of \$70,000 for each of the next three years equal to \$130,000

► Subtract \$130,000 from \$210,000 and set this difference equal to the interest rate

Question No: 11 (Marks: 1) - Please choose one

Which of the following statement best describes to calculate the future value?

► Multiply the present value by the interest rate and add that amount of interest to the present value

► Divide the present value by the interest rate and add that amount of interest to the present value.

► Divide the present value by the interest rate and subtract that amount of interest to the present value.

► Multiply the present value by the interest rate and subtract that amount of interest to the present value.

Question No: 12 (Marks: 1) - Please choose one

_____ A
credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called:

- ▶ Simple loan
- ▶ Fixed-payment loan
- ▶ **Coupon bond**
- ▶ Discount bond

Question No: 13 (Marks: 1) - Please choose one

When an individual obtains a student loan and makes all of the regular monthly payments, the sum of the payments made will exceed the initial amount of the loan. Which of the core principle primarily applies in this situation?

- ▶ Risk Requires Compensation
- ▶ **Time has value**
- ▶ Markets are sometimes inefficient at allocating resources
- ▶ Information is the basis for decisions

Question No: 14 (Marks: 1) - Please choose one

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

- ▶ Spreading the risk
- ▶ Standard deviation
- ▶ **Hedging the risk**

► Variance

Question No: 15 (Marks: 1) - Please choose one

Which of the following statement is **NOT** true for consols?

- Consol offers only periodic interest payments
- Borrower never repays the principal
- There are Government and as well as private consols
- Price of a consol is the present value of all the future interest payments

Question No: 16 (Marks: 1) - Please choose one

The _____ are an assessment of the creditworthiness of the corporate issuer.

- Bond yield
- Bond ratings
- Bond risk
- Bond price

Question No: 17 (Marks: 1) - Please choose one

The price of a 6-month Treasury Bill is _____ the price of a 1-year Treasury Bill.

- ▶ Lower than
- ▶ Higher than
- ▶ Equal to
- ▶ None of the given options

Question No: 18 (Marks: 1) - Please choose one

For a \$1000 one year discount bond with a price of \$975, the yield to maturity is which of the following?

- ▶ $\$975/\1000
- ▶ $(\$1000 - \$975)/\$975$
- ▶ $(\$1000 - \$975)/(\$1000)$
- ▶ $\$1000/\975

Question No: 19 (Marks: 1) - Please choose one

_____ If YTM is greater than the coupon rate the price of the bond is _____.

- ▶ Greater than its face value

▶ Lower than its face value

▶ Equals to its face value

▶ Insufficient information is given

Question No: 20 (Marks: 1) - Please choose one

_____ In
the long run, the yield curve tends to be which of the following?

▶ Upward sloping

▶ Downward sloping

▶ Nearly vertical

▶ Nearly horizontal

Question No: 21 (Marks: 1) - Please choose one

_____ Beside default risk which one if the following factor affects the return on bond?

▶ Taxes

▶ Monetary policy

▶ Junk bonds

▶ Debt

Question No: 22 (Marks: 1) - Please choose one

_____ If
the tax rate is higher than gap between yield on taxable and tax
exempt bond?

- ▶ Shorter
- ▶ Wider
- ▶ No gap
- ▶ Any thing can be possible

Question No: 23 (Marks: 1) - Please choose one

Which of the following statement is correct about the yield curve?

- ▶ Yield on short term bonds are not more volatile than yield on long term bond
- ▶ Long term yields tend to be higher than short term yield
- ▶ Interest rate of different maturities don't tend to move together
- ▶ None of the given options

Question No: 24 (Marks: 1) - Please choose one

The concept of limited liability says **a stockholder** of a corporation:

- ▶ Is liable for the corporation's liabilities, but nothing more
- ▶ Cannot receive dividends that exceed their investment

▶ Cannot own more than five percent of any public corporation

▶ Cannot lose more than their investment

Question No: 25 (Marks: 1) - Please choose one

_____ Mr. David makes payment in the form of paper cheques to a merchant in exchange of some goods. Merchant deposits that cheque in his bank in order to receive payment. Which one of the following is **NOT** true for the above situation?

▶ Merchant's bank will debit merchant's account and credit Mr. David's account.

▶ Merchant's bank will just credit the merchant account and send cheque to central bank for further processing.

▶ Mr. David's bank will debit his account.

▶ Central bank will credit merchant's bank reserve account and debit Mr. David's Bank account.

Question No: 26 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

▶ Free-riding

▶ Moral hazard

▶ Adverse selection

- ▶ The Lemons market

Question No: 27 (Marks: 1) - Please choose one

Money once consisted of Gold and silver coins which were eventually replaced by which of the following?

- ▶ Plastic money
- ▶ Paper money
- ▶ Commodity money
- ▶ E-money

Question No: 28 (Marks: 1) - Please choose one

If a bank has 2000 depositors, each of whom deposits \$500 in the bank, and the bank makes 100 loans of \$10,000 each:

- ▶ Each depositor has contributed \$100 to each loan
- ▶ Each depositor has contributed \$5 to each loan
- ▶ Each depositor has contributed \$50 to each loan
- ▶ Each depositor has contributed \$500 to each loan

Question No: 29 (Marks: 3)

“Stock market plays a crucial role in every modern capitalist economy”. Discuss.

Question No: 30 (Marks: 3)

Differentiate among the individual's categories of Risk Neutral, Risk Averse and Risk Lovers.

Question No: 31 (Marks: 5)

Discuss bubbles in your own word.

Question No: 32 (Marks: 5)

Equilibrium in the bond market is the point at which bonds supply equals bonds demand. Discuss bond supply and bond demand.

MIDTERM EXAMINATION

Spring 2009

Question No: 1 (Marks: 1) - Please choose one

Which of the following are without maturity dates?

- ▶ Zero coupon bonds
- ▶ Coupon securities
- ▶ **Consols**
- ▶ Preferred Bonds

Question No: 2 (Marks: 1) - Please choose one

Which of the following institution takes direct deposit from customer and gives loan to customer directly?

- ▶ Zarai Tarkaytee Bank LTD
- ▶ Soneri Bank
- ▶ Khushali Bank
- ▶ **Credit union**

Question No: 3 (Marks: 1) - Please choose one

Mr. Ghazanfar obtains a home improvement loan from Allied Bank. This loan is:

- ▶ Mr. Ghazanfar's asset and the bank's liability
- ▶ Mr. Ghazanfar 's asset, but the liability belongs to the bank's depositors
- ▶ **Mr. Ghazanfar 's liability and an asset for the bank**
- ▶ Both Mr. Ghazanfar's and bank's liability

Question No: 4 (Marks: 1) - Please choose one

Components of M_1 ***DO NOT*** include which one of the following?

- ▶ Currency in the hands of public
- ▶ Demand deposits
- ▶ **Small denominations time deposit**
- ▶ Checkable deposits

Question No: 5 (Marks: 1) - Please choose one

Which of the following has created an opportunity for small investors to participate in economic activity?

- ▶ **Mutual funds**
- ▶ Small corporations
- ▶ Stock brokers
- ▶ Small investors cannot take part in economic activity

Question No: 6 (Marks: 1) - Please choose one

Which of the following is ***NOT*** an example of financial institutions?

- ▶ Bank
- ▶ Securities firm
- ▶ **Stock exchange**
- ▶ Insurance company

Question No: 7 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

- ▶ Free-riding
- ▶ **Moral hazard**
- ▶ Adverse selection
- ▶ The Lemons market

Question No: 8 (Marks: 1) - Please choose one

In a financial market where information is symmetric:

- ▶ **The same information would be known by both parties in a transaction**
- ▶ One party to a transaction knows information the other party does not
- ▶ The ability to obtain information is available to only one party
- ▶ All of the given options

Question No: 9 (Marks: 1) - Please choose one

When stock prices reflect fundamental values:

- ▶ All investors will experience capital gains
- ▶ All companies will have an easier task of obtaining financing for investment projects
- ▶ **The allocation of resources will be more efficient**

- ▶ The overall level of the stock market should move higher continuously

Question No: 10 (Marks: 1) - Please choose one

An index number is a valuable tool because:

- ▶ The number by itself provides all of the useful information needed
- ▶ **The index provides a meaningful measurement scale to calculate percentage changes**
- ▶ The index is more stable than the data it reflects
- ▶ It does not require any calculations to compute percentage changes

Question No: 11 (Marks: 1) - Please choose one

The concept of limited liability says a **stockholder** of a corporation:

- ▶ Is liable for the corporation's liabilities, but nothing more
- ▶ Cannot receive dividends that exceed their investment
- ▶ Cannot own more than five percent of any public corporation
- ▶ **Cannot lose more than their investment**

Question No: 12 (Marks: 1) - Please choose one

Other things remaining equal, the liquidity premium theory is based upon the idea that _____.

- ▶ Investors prefer long-term bonds
- ▶ **Investors prefer short-term bonds**

- ▶ Investors are indifferent between short-term and long-term bonds
- ▶ Investors prefer intermediate-term bonds

Question No: 13 (Marks: 1) - Please choose one

Which one of the following is **NOT** true for the expectation hypothesis?

- ▶ Risk free interest rate can be computed
- ▶ There is uncertainty in the future
- ▶ Identifying yield of bond today that will be available next year
- ▶ **It focuses on risk free interest rate and the risk premium**

Question No: 14 (Marks: 1) - Please choose one

A graph of the term structure with YTM on Y-axis and time to maturity on X-axis is called:

- ▶ Demand curve
- ▶ Supply curve
- ▶ **Yield curve**
- ▶ Leffer curve

Question No: 15 (Marks: 1) - Please choose one

	Bond A	Bond B
Maturity	5 years	10 years
Default risk	5%	5%
Tax rate	30%	30%



Yield	?	?
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See the above table and choose the one option which is **NOT** correct about the yield of Bond A and Bond B?

- ▶ **Bond tax status and default rate are not the only factors that affect the yield of the two bonds**
- ▶ Bond A has different yield from that of Bond B because of change in maturity period
- ▶ Yields of both the bonds are not disturbed by maturity period
- ▶ Yield of Bond B depends on what people expect to happen in years to come

Question No: 16 (Marks: 1) - Please choose one

The _____ are an assessment of the creditworthiness of the corporate issuer.

- ▶ Bond yield
- ▶ **Bond ratings**
- ▶ Bond risk
- ▶ Bond price

Question No: 17 (Marks: 1) - Please choose one

The bond rating of a security refers to which of the followings?

- ▶ The size of the coupon payment relative to the face value
- ▶ The return a holder is likely to receive

► **The likelihood the lender/borrower will be repaid by the borrower/issuer**

► The years until the bond matures

Question No: 18 (Marks: 1) - Please choose one

An increase in the expected inflation shifts the bond demand to the _____

► **Right**

► Left

► No change

► None of the given options

Question No: 19 (Marks: 1) - Please choose one

The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

► **6.25%**

► 7.50%

► 8.00%

► 5.00%

$$10000 * 5 / 100 / 8000 = 0.0625 = 6.25\%$$

Question No: 20 (Marks: 1) - Please choose one

If the annual interest rate is 6% (.06); the price of a one year Treasury bill would be:

► **\$94.00**

▶ **\$94.33**

▶ \$95.25

▶ \$96.10

Question No: 21 (Marks: 1) - Please choose one

The return on holding a bond till its maturity is called:

▶ Coupon rate

▶ **Yield to maturity**

▶ Current yield

▶ Fixed return

Question No: 22 (Marks: 1) - Please choose one

Which of the following best describes the relationship between Bond prices and yields?

▶ Move together directly

▶ Independent of each other

▶ **Move together inversely**

▶ Bond yields do not change since the coupon is fixed

Question No: 23 (Marks: 1) - Please choose one

Mr. A has a Treasury bill with a maturity period of 6 months where as Mr. B has a bond with a maturity period of 1 year. Which of the following statement is **NOT** true for this situation?

- ▶ Mr. A has paid less price for his bond than Mr. B
- ▶ **Mr. A and Mr. B is a holder of zero coupon bond**
- ▶ Mr. A will receive payment at the end of the maturity period
- ▶ Mr. B will receive the payment at the end of the maturity period

Question No: 24 (Marks: 1) - Please choose one

What is true relationship between return and risk?

- ▶ Lower the risk greater the return
- ▶ **Greater the risk greater the return**
- ▶ Greater the risk no change in return
- ▶ No relationship between them

Question No: 25 (Marks: 1) - Please choose one

Sum of all the probabilities should be equal to which one of the following?

- ▶ Zero
- ▶ **One**
- ▶ Two
- ▶ Three

Question No: 26 (Marks: 1) - Please choose one

_____ measures the probability of worst outcome in any investment project.

- ▶ Variance
- ▶ Standard deviation
- ▶ **Value at risk**
- ▶ Hedging

Question No: 27 (Marks: 1) - Please choose one

The variance is generally less useful than the standard deviation on which of the following reasons? <http://vustudents.ning.com>

- ▶ Variance is easier to calculate
- ▶ Variance is a measure of risk, whereas standard deviation is a measure of return
- ▶ **Variance isn't calculated in the same units as payoffs where as standard deviation is**
- ▶ Both are equally useful

Question No: 28 (Marks: 1) - Please choose one

A credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called:

- ▶ Simple loan
- ▶ Fixed-payment loan
- ▶ **Coupon bond**

- ▶ Discount bond

Question No: 29 (Marks: 1) - Please choose one

Which of the following provides the greatest incentive to borrow?

- ▶ A high real interest rate
- ▶ **A low real interest rate**
- ▶ A high nominal interest rate
- ▶ A low nominal interest rate

Question No: 30 (Marks: 1) - Please choose one

An investment carrying a current cost of \$130,000 is going to generate \$70,000 of revenue for each of the next three years. To calculate the internal rate of return we need to:

- ▶ Calculate the present value of each of the \$70,000 payments and multiply these and set this equal to \$130,000
- ▶ Take the present value of \$210,000 for three years from now and set this equal to \$130,000
- ▶ **Set the sum of the present value of \$70,000 for each of the next three years equal to \$130,000**
- ▶ Subtract \$130,000 from \$210,000 and set this difference equal to the interest rate

Question No: 31 (Marks: 1) - Please choose one

A borrower is promised a \$100 payment (including interest) one year from today. If the lender has an 8% opportunity cost of money, he should be willing to accept what amount today?

- ▶ Rs.100.00
- ▶ Rs.108.20
- ▶ **Rs.92.59**
- ▶ Rs.96.40

Question No: 32 (Marks: 1) - Please choose one

Which one of the following is **NOT** an example of Centralized exchange?

- ▶ New York Stock Exchange
- ▶ NASDAQ
- ▶ **Large exchanges in London**
- ▶ Large exchanges in Tokyo

Question No: 33 (Marks: 1) - Please choose one

Financial intermediaries provide small lender-savers all of the following advantages **EXCEPT**:

- ▶ **Greater liquidity**
- ▶ Lower transaction cost
- ▶ Lower risk
- ▶ Higher return

Question No: 34 (Marks: 1) - Please choose one

The shares of McDonald Corporation stock are examples of:

- ▶ **A standardized financial instrument**
- ▶ A standardized financial liability instrument
- ▶ A non-standardized financial instrument
- ▶ A means of payment

Question No: 35 (Marks: 1) - Please choose one

Which of the following statements is **NOT** correct?

- ▶ **Banks are financial intermediaries**
- ▶ Financial intermediary involves in giving loan and accepting deposit
- ▶ All financial intermediaries are insurance companies
- ▶ Financial intermediaries increase the efficiency of the economy

Question No: 36 (Marks: 1) - Please choose one

Economic research shows:

- ▶ There is a strong inverse correlation between financial market development and economic growth
- ▶ There is weak relation between financial market development and economic growth around 0.25

► **There is a relatively strong positive correlation between financial market development and economic growth**

► There isn't any correlation between financial market development and economic growth

Question No: 37 (Marks: 1) - Please choose one

Which of the following statements is correct?

► If you can buy the same goods this year as you bought last year with less money the money supply decreased.

► **To purchase the same goods today that were purchased one year ago requires more money, there must have been inflation**

► To purchase the same goods today as one year ago requires less money, the money supply must have increased

► To purchase the same goods today that were purchased one year ago requires the same amount of money, there must have been inflation

Question No: 38 (Marks: 1) - Please choose one

The one that you get from bank when you open your checking account is

_____.

► **Debit card**

► Credit card

► Store value card

► Customer card

Question No: 39 (Marks: 1) - Please choose one

Wealth can be held in number of other forms but we use to hold money because of which one of the following reason?

- ▶ It is the only mode of payment
- ▶ It is an asset
- ▶ **It is most liquid**
- ▶ It is the only store of value

Question No: 40 (Marks: 1) - Please choose one

Which of the following are used to monitor and stabilize the economy?

- ▶ Stock exchanges
- ▶ Commercial Banks
- ▶ **Central Banks**
- ▶ Financial institutions

Question No: 41 (Marks: 10)

“A financial instrument is a real or virtual document representing a legal agreement involving some sort of monetary value.” Discuss further on financial instruments by giving examples. Point out some of its uses and important characteristics.

ANSWER: Financial Instrument: Financial instrument is a written obligation of one party to transfer something of value to another party at a future date under certain conditions.

- By written obligation we mean that it is enforced by the government and this obligation is an important feature of a financial instrument.
- The party here can be an individual, company or a government
- Future date can be specified or when some event occurs.

Examples: Stocks, bonds, insurance etc are examples of financial instruments.

Characteristics of Financial Instruments: There are certain characteristics of financial instruments.

1. **Standardization:** It is a standardized agreement which enables reduction in costs of complexity. So because of this most financial instruments today are similar.
2. **Communicate Information:** Provide certain important information about the issuer which otherwise would have been difficult to gather for the lenders.

Value of Financial Instruments: The value of financial instruments depends on various factors.

- **Size:** Larger the promised payment more valuable is the financial instrument.
- **Timing:** The sooner the payment is made increases the value of financial instrument.
- **Risk:** A financial instrument is more valuable if there are greater possibilities that payment will be made.
- **Circumstances:** Payments made when needed the most makes the financial instrument more valuable.

Uses of Financial Instruments:

- **Store Of Value:**

Stocks: The stock holder is a part owner of the firm and receives part of its profits.

Bonds: A form of loan which promises to make repayment in future dates.

Bank loans: Borrowers obtains resources from lenders in exchange of promised payments.

- **Transfer of Risk:**

Insurance: Takes premium to assure payment under particular conditions (accident, death etc)

Future contracts: It is an agreement to exchange fixed quantity of a commodity or an asset at a fixed price. Transfer risk of price fluctuations.

Options: Gives holder the right to purchase fixed quantity of an underlying asset at predetermined price within a specific period.

MIDTERM EXAMINATION

Spring 2009

MGT411- Money & Banking (Session - 2)

Time: 60 min

Marks: 50

Question No: 1 (Marks: 1) - Please choose one

Which of the following statement is true about the relationship between bond ,coupon payment and interest?

- ▶ Coupon payments fall, the interest rate falls, and Bond price will rise
- ▶ Coupon payments rise, the interest rate falls, and Bond price will rise
- ▶ Coupon payments fall, the interest rate falls, and Bond price will fall
- ▶ Coupon payments rise, the interest rate falls, and Bond price will fall

The value of the coupon bond rises when the yearly coupon payments rise and when the interest rate falls

☐ Lower interest rates mean higher bond prices and vice versa.

Question No: 2 (Marks: 1) - Please choose one

Which of the following institution takes direct deposit from customer and gives loan to customer directly?

- ▶ Zarai Tarkaytee Bank LTD
- ▶ Soneri Bank
- ▶ Khushali Bank
- ▶ Credit union

Question No: 3 (Marks: 1) - Please choose one

Which of the following is NOT true for financial institutions?

- ▶ It reduces the transaction cost
- ▶ It reduces the information cost
- ▶ It reduces the asymmetric information
- ▶ It doesn't make long term loans

Question No: 4 (Marks: 1) - Please choose one

Often a bank will require a loan officer to make personal visits on customers with loans outstanding. This is encouraged because:

- ▶ The bank worries about competitors trying to steal their customers
- ▶ The bank wants to make sure the business is still there
- ▶ The bank likely has excess funds available and hopes to make another loan to the business
- ▶ This is an effective monitoring technique and should reduce moral hazard

Question No: 5 (Marks: 1) - Please choose one

Della's Donut Shop goes out of business due to decreasing sales resulting from the dramatic increase in people on low carbohydrate diets. The decrease in business also results in Della's defaulting on the loan they have with the bank. This is an example of:

- ▶ Asymmetric information in financial markets
- ▶ Lack of perfect information in financial markets
- ▶ Moral hazard in financial markets
- ▶ Adverse selection

Question No: 6 (Marks: 1) - Please choose one

A bank can usually offer a saver a higher return for the same risk because:

- ▶ The bank can usually purchase assets at a higher cost than any one saver
- ▶ The bank can pool the resources of larger savers and purchase lower denominated assets
- ▶ Economies of scale can be applied by the bank in its purchase of assets
- ▶ None of the given options

Question No: 7 (Marks: 1) - Please choose one

Without the ability of financial intermediaries to pool the resources of small savers:

- ▶ Borrowers needing large amounts of money would find it less costly to obtain the funds
- ▶ The economy would likely grow faster
- ▶ People would likely save more
- ▶ The risk associated with lending would increase

Question No: 8 (Marks: 1) - Please choose one

The process of financial intermediation:

- ▶ Creates a net cost to an economy but is unavoidable
- ▶ Is used primarily in underdeveloped countries
- ▶ Is always used when a borrower needs to obtain funds
- ▶ Increases the economy's ability to produce

Question No: 9 (Marks: 1) - Please choose one

The Theory of Efficient Markets:

- ▶ Allows for higher than average returns if the investor takes higher risk
- ▶ Says Insider-information makes markets less efficient
- ▶ Rules out high returns due to chance

- ▶ Assumes people have equal luck

Question No: 10 (Marks: 1) - Please choose one

If we ignore risk, the dividend discount model says the fundamental price of a stock is simply:

- ▶ The current dividend divided by the interest rate less the dividend growth rate
- ▶ The annual growth rate of the dividend minus the interest rate divided by the current dividend
- ▶ The current dividend divided by the interest rate plus the dividend growth rate
- ▶ The current dividend divided by the dividend growth rate less the interest rate

Question No: 11 (Marks: 1) - Please choose one

Which statement shows the major difference between stocks and bonds?

- ▶ Bonds pay their owners dividends while stocks pay interest
- ▶ Bonds pay their owners interest while stocks pay dividends
- ▶ Interest on a bond is not guaranteed while dividends on stock are legally required
- ▶ Bonds represent ownership while stock represents debt

Question No: 12 (Marks: 1) - Please choose one

The concept of limited liability says a **stockholder** of a corporation:

- ▶ Is liable for the corporation's liabilities, but nothing more
- ▶ Cannot receive dividends that exceed their investment
- ▶ Cannot own more than five percent of any public corporation
- ▶ Cannot lose more than their investment

Question No: 13 (Marks: 1) - Please choose one

The liquidity premium theory suggests that yield curves should usually be:

- ▶ Up-sloping
- ▶ Inverted
- ▶ Flat
- ▶ Up-sloping through year 1, then flat thereafter

Question No: 14 (Marks: 1) - Please choose one

Which of the following statement is true about two bonds having same default rate and tax status but different maturity dates?

- ▶ It creates no effect on yield of bonds
- ▶ Both of them have different yield
- ▶ Liquidity risk factor should be taken into consideration
- ▶ It is impossible that default risk and tax status of two bonds are same

Question No: 15 (Marks: 1) - Please choose one

A business cycle downturn shifts the bond supply to the:

- ▶ Right
- ▶ Left
- ▶ No change
- ▶ None of the given options

A business-cycle downturn shifts the bond supply to the left and the bond demand to the left. In this case the bond price can rise or fall, depending on which shift is greater. But interest rates tend to fall in recessions, so bond prices are likely to increase.

Question No: 16 (Marks: 1) - Please choose one

An increase in the expected inflation shifts the bond demand to the _____

- ▶ Right
- ▶ Left
- ▶ No change
- ▶ None of the given options

Question No: 17 (Marks: 1) - Please choose one

An increase in the expected inflation shifts the bond supply to the _____

- ▶ Right
- ▶ Left
- ▶ No change
- ▶ None of the given options

Question No: 18 (Marks: 1) - Please choose one

Current yield did NOT measure which of the following?

- ▶ Return arises from coupon payment
- ▶ Capital gain and loss
- ▶ Return arises from bond holding till maturity
- ▶ All of the given options

Question No: 19 (Marks: 1) - Please choose one

Current yield is equal to which of the following?

- ▶ Price paid / yearly coupon payment
- ▶ Price paid *yearly coupon payment
- ▶ Yearly coupon payment / face value of bond
- ▶ Yearly coupon payment / price paid

Question No: 20 (Marks: 1) - Please choose one

The relationship between the price and the interest rate for a zero coupon bond is best described as _____.

- ▶ Volatile
- ▶ Stable
- ▶ Inverse
- ▶ No relationship

Question No: 21 (Marks: 1) - Please choose one

Which of the following statement is NOT true for consols?

- ▶ Consol offers only periodic interest payments
- ▶ Borrower never repays the principal
- ▶ There are Government and as well as private consols
- ▶ Price of a consol is the present value of all the future interest payments

There are no privately issued consols because only governments can credibly promise to make payments forever

Question No: 22 (Marks: 1) - Please choose one

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

- ▶ Spreading the risk
- ▶ Standard deviation
- ▶ Hedging the risk
- ▶ Variance

Hedging is the strategy of reducing overall risk by making two investments with opposing risks so that when one does poorly the other does well and vice versa.

Question No: 23 (Marks: 1) - Please choose one

The variance is generally less useful than the standard deviation on which of the following reasons?

- ▶ Variance is easier to calculate

- ▶ Variance is a measure of risk, whereas standard deviation is a measure of return
- ▶ Variance isn't calculated in the same units as payoffs where as standard deviation is
- ▶ Both are equally useful

Question No: 24 (Marks: 1) - Please choose one

Suppose a \$1000 investment has a fixed return of 5% per annum, which one of the following statement is **NOT** true for this investment?

- ▶ Its return can be calculated
- ▶ It's a risky investment
- ▶ It will give return annually
- ▶ Its future value is known

Question No: 25 (Marks: 1) - Please choose one

If a bond sells at a premium, where price exceeds face value, then we would expect to see:

- ▶ Market interest rate the same as the coupon rate
- ▶ Market interest rates above the coupon rate
- ▶ Market interest rates below the coupon rate
- ▶ None of the given options

Question No: 26 (Marks: 1) - Please choose one

The rule of 72 says that at 12% interest \$100 should become \$200 in about

- ▶ 72 months
- ▶ 100 months
- ▶ 12 years
- ▶ 8.2 years

Question No: 27 (Marks: 1) - Please choose one

A borrower is promised a \$100 payment (including interest) one year from today. If the lender has an 8% opportunity cost of money, he should be willing to accept what amount today?

- ▶ Rs.100.00
- ▶ Rs.108.20
- ▶ Rs.92.59
- ▶ Rs.96.40

Question No: 28 (Marks: 1) - Please choose one

_____ is the today's value of a payment that is promised to be made in the future.

- ▶ None of the given options
- ▶ Future value
- ▶ **Present value**
- ▶ Agreed value

The present value is the value today of a payment that is promised to be made in the future. It is the amount that must be invested today in order to realize a specific amount on a given future date

Question No: 29 (Marks: 1) - Please choose one

The future value of \$100 left in a savings account earning 4.5% for two and a half years is best expressed by:

- ▶ $\$100(1.045)^{3/2}$
- ▶ $\$100(0.45)^{2.5}$
- ▶ **$\$100(1.045)^{2.5}$**
- ▶ $100 \times 2.5 \times (1.045)$

Question No: 30 (Marks: 1) - Please choose one

What is relationship between interest rate and future value?

- ▶ Lower the interest rate higher will be the future value
- ▶ **Higher the interest rate higher will be the future value**
- ▶ Higher the interest rate lower will be the future value
- ▶ Interest rate has no effect on future value

Question No: 31 (Marks: 1) - Please choose one

Which of the following is a financial market in which a borrower obtains funds from a lender by selling newly issued securities?

- ▶ Secondary market
- ▶ **Primary market**
- ▶ Over the counter market
- ▶ Centralized market

In a primary market a borrower obtains funds from a lender by selling newly issued securities. Most of the action in primary markets goes on out of public view. Most companies use an investment bank, which will determine a price and then purchase the company's securities in preparation for resale to clients; this is called underwriting. We hear more about the secondary markets where people can buy and sell existing securities.

Question No: 32 (Marks: 1) - Please choose one

Repurchase agreements are:

- ▶ The most liquid of all money market instruments
- ▶ In use for hundreds of years
- ▶ Loans of deposits at the Federal Reserve
- ▶ Short term loans with Treasury bills as collateral

Question No: 33 (Marks: 1) - Please choose one

Considering the value of a financial instrument, the longer the time until the promised payment is made:

- ▶ The less valuable is the promise to make it since time is valuable
- ▶ The greater the risk, therefore the promise has greater value
- ▶ The more valuable is the promise to make it
- ▶ It has no effect on the value of instrument

Question No: 34 (Marks: 1) - Please choose one

A Financial Intermediary:

- ▶ Is an agency that guarantees a loan
- ▶ Is involved in direct finance
- ▶ Would be used in indirect finance
- ▶ None of the given options

Question No: 35 (Marks: 1) - Please choose one

The Consumer Price Index (CPI):

- ▶ Tends to overstate inflation due to substitution bias
- ▶ Tends to understate actual inflation
- ▶ Is more accurate than the GDP deflator
- ▶ Is based on basket of goods that changes monthly with consumer expenditures

Question No: 36 (Marks: 1) - Please choose one

All of the following are the components of M_2 EXCEPT?

- ▶ M_1
- ▶ Saving deposits
- ▶ Travelers cheques
- ▶ Mutual funds shares

Question No: 37 (Marks: 1) - Please choose one

Which of the following statement truly represents the main difference between debit card and store value card?

- ▶ Debit card is operated by ATM machine while Store value card doesn't
- ▶ Debit card appearance is different from Store value card
- ▶ Debit card is not specific for user but store value card is specific
- ▶ Debit card is specific for user but store value card is not

Question No: 38 (Marks: 1) - Please choose one

In electronic transfer the most common method is to send money through a system maintained by Federal reserve called _____.

- ▶ Fedex
- ▶ Fedwire
- ▶ Fedtransfer
- ▶ Fedmoney

One wire transfer system used generally to transfer large dollar amounts instantaneously and which is provided by the US Federal Reserve System

Question No: 39 (Marks: 1) - Please choose one

The one that you get from bank when you open your checking account is _____.

- ▶ Debit card
- ▶ Credit card
- ▶ Store value card
- ▶ Customer card

Question No: 40 (Marks: 1) - Please choose one

Mr. Ghazanfar has assets which when converted to cash, yield more currency then he needs to pay his debt. Which of the following statement best suites Mr. Ghazanfar?

- ▶ Mr. Ghazanfar earns good income
- ▶ Mr. Ghazanfar is a wealthy person
- ▶ All of the given options
- ▶ Mr. Ghazanfar has a lot of money at point in time

Question No: 41 (Marks: 10)

What are five core principles of financial system? Discuss it in detail.

Answer:

Financial System:

In finance, the financial system is the system that allows the transfer of money between savers and borrowers.

Five Core Principles of the Financial System & Details:

According to Mr. Brown, five core principles of Financial System, as outlined below:

- 1) **First**, transparency means bringing the so-called 'shadow banking system' into the regulatory system, not operating parallel to it. And across the world, financial institutions need to be supervised not on what name they give themselves - be it banks, hedge funds or investment funds - but on what they do. We also need to ensure that all jurisdictions - such as offshore havens - and all important markets are covered by global supervision.
- 2) **Second** accountability means boardroom integrity, where boards of directors must understand and be held responsible for the risks they undertake. And credit rating agencies need to be free of conflicts of interest and be properly licensed.
- 3) **Third**, responsible risk taking means an end to the excesses from short-termism; instead rewarding people for long term success not short term deals. But to be most effective it has to be done internationally. A race to the bottom is in no one's interest. So we should agree a new international approach to pay and bonus structures.
- 4) **The fourth** principle of prudential regulation means taking into account the effect of a bank's capital, liquidity, solvency and conduct on the whole financial system.
- 5) **Finally**, he stated: "Lastly, international co-operation lies at the heart of all our changes - recognizing that financial institutions that work across borders need to be under cross border supervision too and regulators in one country must co-operate far more closely with regulators in other countries to create a global network of regulation that captures the risks to us all.

Other Principles of Financial are below:

- a. Facilitate Payments
- b. Channel Funds from Savers to Borrowers
- c. Enable Risk Sharing

MIDTERM EXAMINATION

Fall 2009

MGT411- Money & Banking

Question No: 1 (Marks: 1) - Please choose one

Which of the following are used to transfer resources from savers to investors and to transfer risk to those who best equipped it?

- ▶ Financial markets
- ▶ **Financial instruments**
- ▶ Financial institutions
- ▶ Banks

Reference by Stephen G Cecchetti

two ideas are emphasized: that financial instruments transfer resources from savers to investors, and that in doing so, they transfer risk to those best equipped to bear it

Question No: 2 (Marks: 1) - Please choose one

Which of the following are used to monitor and stabilize the economy?

- ▶ Stock exchanges
- ▶ Commercial Banks
- ▶ **Central Banks**
- ▶ Financial institutions

Question No: 3 (Marks: 1) - Please choose one

The reason for the government to get involved in the financial system is to:

- ▶ Protect investors
- ▶ Ensure the stability of the financial system
- ▶ Protect bank customers from monopolistic exploitation
- ▶ **All of the given options**

Question No: 4 (Marks: 1) - Please choose one

The one that you get from bank when you open your checking account is

_____.

- ▶ **Debit card**
- ▶ Credit card

- ▶ Store value card
- ▶ Customer card

Question No: 5 (Marks: 1) - Please choose one

E money is really a form of which one of the following?

- ▶ Paper money
- ▶ Fiat money
- ▶ Government money
- ▶ **Private money**

Question No: 6 (Marks: 1) - Please choose one

All of the following are the components of M_2 **EXCEPT**?

- ▶ M_1
- ▶ Saving deposits
- ▶ **Travelers cheques**
- ▶ Mutual funds shares

M2: Equals M_1 + savings deposits, time deposits less than \$100,000 and money market deposit accounts for individuals.

Travelers cheques are example of M_1

Question No: 7 (Marks: 1) - Please choose one

The Consumer Price Index (CPI):

▶ **Tends to overstate inflation due to substitution bias**

- ▶ Tends to understate actual inflation
- ▶ Is more accurate than the GDP deflator
- ▶ Is based on basket of goods that changes monthly with consumer expenditures

Question No: 8 (Marks: 1) - Please choose one

Considering the value of a financial instrument, the longer the time until the promised payment is made:

▶ **The less valuable is the promise to make it since time is valuable**

- ▶ The greater the risk, therefore the promise has greater value
- ▶ The more valuable is the promise to make it
- ▶ It has no effect on the value of instrument

Question No: 9 (Marks: 1) - Please choose one

Commissions paid to an insurance broker are an example of which of the following?

- ▶ Risk transfer
- ▶ Information asymmetry
- ▶ **Transaction costs**
- ▶ All of the given options

Question No: 10 (Marks: 1) - Please choose one

_____ are the economies central nervous system.

- ▶ Financial Instruments
- ▶ **Financial Markets**
- ▶ Financial Institutions
- ▶ Financial Companies

Financial markets are like the "central nervous system" of the economy, says Cecchetti's textbook.

Question No: 11 (Marks: 1) - Please choose one

Which one of the following is **NOT** an example of Centralized exchange?

- ▶ New York Stock Exchange
- ▶ NASDAQ
- ▶ **Large exchanges in London**
- ▶ Large exchanges in Tokyo

Question No: 12 (Marks: 1) - Please choose one

Which of the following market allowed networks of dealers that are connected electronically?

- ▶ New York Stock Exchange
- ▶ **NASDAQ**

- ▶ Large exchanges in London
- ▶ Large exchanges in Tokyo

Question No: 13 (Marks: 1) - Please choose one

Bonds that are issued by Government are called _____.

- ▶ Government bonds
- ▶ **Treasury bonds**
- ▶ Corporate bonds
- ▶ Callable bonds

Question No: 14 (Marks: 1) - Please choose one

What is relationship between interest rate and future value?

- ▶ Lower the interest rate higher will be the future value
- ▶ **Higher the interest rate higher will be the future value**
- ▶ Higher the interest rate lower will be the future value
- ▶ Interest rate has no effect on future value

Question No: 15 (Marks: 1) - Please choose one

The future value of \$100 left in a savings account earning 4.5% for two and a half years is best expressed by:

- ▶ $\$100(1.045)^{3/2}$
- ▶ $\$100(0.45)^{2.5}$

▶ **$\$100(1.045)^{2.5}$**

▶ $100 \times 2.5 \times (1.045)$

Question No: 16 (Marks: 1) - Please choose one

If the factor time (n) is longer then: <http://vustudents.ning.com>

▶ **Present value will be lower**

▶ Present value will be higher

▶ Interest rate will be lower

▶ Time has no effect on present value

Reference: As we calculate PV through dividing the future value by the discount factor which is $(1+i)^n$ so if we increase the value of 'n' It will surely increase the discount factor which is the denominator and the greater the denominator the smaller will be the value of the fraction.

Question No: 17 (Marks: 1) - Please choose one

If at 5% interest rate, \$100 payment has a PV of \$90.70. Then what will be the PV value of \$200 payment? (Without applying formula).

▶ \$45.35

▶ \$272.1

▶ **$\$181.4$**

▶ \$362.8

Lets see the given is that 5% interest rate, $FV = \$100$, $PV = \$90.70$

Now calculate for 'n' that is no of years. As mentioned is that k without using formula so do not use the compounding formula. Use the simple one

$$FV = PV * i * n$$

$$n = FV / PV * i$$

$$n = 100 / 90.7 * 0.05$$

$$n = 22$$

We are asked to calculate PV if FV=200

$$PV = FV / i * n$$

$$PV = 200 / 1.1$$

$$PV = \$181.4$$

Question No: 18 (Marks: 1) - Please choose one

Which of the following provides the greatest incentive to borrow?

- ▶ A high real interest rate
- ▶ A low real interest rate**
- ▶ A high nominal interest rate
- ▶ A low nominal interest rate

Question No: 19 (Marks: 1) - Please choose one

Which of the following represents the fisher's equation?

- ▶ Nominal interest rate = real interest rate + inflation**
- ▶ Nominal interest rate + inflation = real interest rate

- ▶ Nominal interest rate = real interest rate - inflation
- ▶ Nominal interest rate = real interest rate / inflation

Question No: 20 (Marks: 1) - Please choose one

What will be the result of the difference of real and nominal interest rate?

- ▶ The cost of borrowing

▶ The effect of inflation

- ▶ The price of bonds
- ▶ The return of bonds

nominal interest rate is equal to the real interest rate plus the expected rate of inflation

Question No: 21 (Marks: 1) - Please choose one

Which of the following statement is true for amortized loan?

- ▶ Payment includes interest and full amount of principal
- ▶ Payment includes only the interest

▶ Payment includes both interest and some portion of the principal

- ▶ Principal amount is paid fully in the periodic payments

These loans are amortized, meaning that the borrower pays off the principal along with the interest over the life of the loan. Each payment includes both interest and some portion of the principal.

Question No: 22 (Marks: 1) - Please choose one

A zero coupon bond:

- ▶ Does not pay any coupon payments because the issuer is in default
- ▶ Pays coupons only once a year versus the usual twice a year
- ▶ Promises a single future payment**
- ▶ Pays coupons only if the bond price is below face value

Question No: 23 (Marks: 1) - Please choose one

Which of the following best expresses the formula for determining the price of a U.S. Treasury bill per \$100 of face value?

- ▶ $\$100(1 + i)$
- ▶ $\$100 / (1 + i)^n$**
- ▶ $\$100 / (1 + i)$
- ▶ $1 + \$100 / (1 + i)^n$

Question No: 24 (Marks: 1) - Please choose one

If YTM equals the coupon rate the price of the bond is _____.

- ▶ Greater than its face value
- ▶ Lower than its face value
- ▶ Equals to its face value**
- ▶ Insufficient information is given

Question No: 25 (Marks: 1) - Please choose one

The return on the bond is equal to which of the following?

▶ Coupon rate + rate of capital gains

▶ **Current yield + rate of capital gains**

▶ Coupon rate - rate of capital gains

▶ Current yield - rate of capital gains

Question No: 26 (Marks: 1) - Please choose one

A business cycle downturn shifts the bond supply to the:

▶ Right

▶ **Left**

▶ No change

▶ None of the given options

A business-cycle downturn shifts the bond supply to the left and the bond demand to the left. In this case the bond price can rise or fall, depending on which shift is greater. But interest rates tend to fall in recessions, so bond prices are likely to increase

Question No: 27 (Marks: 1) - Please choose one

In the long run, the yield curve tends to be which of the following?

▶ **Upward sloping**

▶ Downward sloping

- ▶ Nearly vertical
- ▶ Nearly horizontal

The yield curve's upward slope is due to long-term bonds being riskier than short-term bonds

Question No: 28 (Marks: 1) - Please choose one

Yield curves show which of the followings?

- ▶ The relationship between bond interest rates (yields) and bond prices
- ▶ The relationship between liquidity and bond interest rates (yields)
- ▶ The relationship between risk and bond interest rates (yields)

▶ The relationship between time to maturity and bond interest rates (yields)

Question No: 29 (Marks: 1) - Please choose one

Mr. Ghazanfar wants to invest Rs.2,000 in a bond. If this bond is expected to receive a return of Rs.100 per month and a tax of Rs.3 will be deducted on this return. Then Mr. Ghazanfar made his decision by considering which of the following fact?

- ▶ He is attracted by Rs.100 return per month

▶ He considers Rs.100 less deduction for tax i.e.Rs.97

- ▶ He takes into consideration only the portion of tax which is deducted
- ▶ His decision will not be affected by any of the given factors

Question No: 30 (Marks: 1) - Please choose one

Mr. Ali has a bond, which is issued by local government of Punjab which is **NOT** true for situation?

► **He faces tax affects on return on bond**

- His bond can also be named as municipal bond
- He receive interest on that bond throughout life period of bond
- Default risk affects its return on bond

One of the primary reasons municipal bonds are considered separately from other types of bonds is their special ability to provide tax-exempt income. Interest paid by the issuer to bond holders is often exempt from all federal taxes, as well as state or local taxes depending on the state in which the issuer is located

Question No: 31 (Marks: 1) - Please choose one

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

► **Because only interest income they receive from bond is taxable**

- Because principal amount and interest income they receive from bond is taxable
- Because bond holders are taxpayers
- Because all bond is sold with a condition that tax will be deducted from its return

Question No: 32 (Marks: 1) - Please choose one

The expectations theory of the term structure assumes:

► **Buyers of bonds consider bonds of different maturities to be perfect substitutes**

- Markets for different maturity bonds are completely separate
- Buyers of bonds prefer bonds with shorter maturities
- Buyers of bonds prefer bonds with longer maturities

Question No: 33 (Marks: 1) - Please choose one

The fact that common stockholders are residual claimants means:

- The stockholders receive their dividends before any other residuals are paid

► **The stockholders receive the remains after everyone else is paid**

- The stockholders are paid any past due dividends before other claims are paid
- The common stockholders are responsible for all corporate debts

Question No: 34 (Marks: 1) - Please choose one

An index number is a valuable tool because:

- The number by itself provides all of the useful information needed

► **The index provides a meaningful measurement scale to calculate percentage changes**

- The index is more stable than the data it reflects
- It does not require any calculations to compute percentage changes

Question No: 35 (Marks: 1) - Please choose one

The Theory of Efficient Markets:

- ▶ Allows for higher than average returns if the investor takes higher risk
- ▶ Says Insider-information makes markets less efficient
- ▶ Rules out high returns due to chance
- ▶ Assumes people have equal luck

[Reference](#)

Question No: 36 (Marks: 1) - Please choose one

In a financial market where information is symmetric:

- ▶ **The same information would be known by both parties in a transaction**
- ▶ One party to a transaction knows information the other party does not
- ▶ The ability to obtain information is available to only one party
- ▶ All of the given options

[Reference](#)

Question No: 37 (Marks: 1) - Please choose one

Which of the following has created an opportunity for small investors to participate in economic activity?

- ▶ **Mutual funds**
- ▶ Small corporations
- ▶ Stock brokers

- ▶ Small investors cannot take part in economic activity

Question No: 38 (Marks: 1) - Please choose one

Money once consisted of Gold and silver coins which were eventually replaced by which of the following?

- ▶ Plastic money
- ▶ **Paper money**
- ▶ Commodity money
- ▶ E-money

Question No: 39 (Marks: 3)

Briefly discuss different types of investment grades of Long term ratings be PACRA.

Answer : PACRA is the Pakistan Credit rating agency which rates different companies in Pakistan who offer bonds or stocks to investors. They rate companies independently to protect investors from companies who might default and not pay the investors. Based on their ratings given to different companies people who want to invest will know which companies to go for investment and which to avoid.

The different types of investment grades given of long term ratings given by them are :

AAA : This is highest credit quality and has lowest expectation of risk

AA : Very high credit quality and very low expectation of risk

A: High credit quality and low expectation of risk

BB : Good credit quality and as of now there is low expectation of credit risk.

Question No: 40 (Marks: 3)

Money is accepted in economic exchange. Discuss.

Question No: 41 (Marks: 5)

“People differ in their opinions of how stocks should be valued”. Discuss it.

MIDTERM EXAMINATION MGT411- Money & Banking

Time: 60 min

Marks: 49

Question No: 1 (Marks: 1) - Please choose one

We need _____ to carry out day to day transactions.

▶ Money

▶ Bonds

▶ Stocks

▶ Loans

Question No: 2 (Marks: 1) - Please choose one

The reason for the government to get involved in the financial system is to:

▶ Protect investors

▶ Ensure the stability of the financial system

▶ Protect bank customers from monopolistic exploitation

▶ All of the given options

There are three reasons for the government to get involved in the financial system

§ To protect investors

§ To protect bank customers from monopolistic exploitation

§ To ensure the stability of the financial system

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Question No: 3 (Marks: 1) - Please choose one

_____ are organized to eliminate the need of costly information gathering.

- ▶ Central banks
- ▶ Commercial banks
- ▶ Stock exchanges
- ▶ Insurance companies

Stock exchanges are organized to eliminate the need for costly information gathering and thus facilitate the exchange of securities

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Question No: 4 (Marks: 1) - Please choose one

All of the following are the components of M_2 EXCEPT?

- ▶ M_1
- ▶ Saving deposits
- ▶ Travelers cheques
- ▶ Mutual funds shares

Question No: 5 (Marks: 1) - Please choose one

A Financial Intermediary:

- ▶ Is an agency that guarantees a loan

- ▶ Is involved in direct finance
- ▶ Would be used in indirect finance
- ▶ None of the given options

Question No: 6 (Marks: 1) - Please choose one

Commissions paid to an insurance broker are an example of which of the following?

- ▶ Risk transfer
- ▶ Information asymmetry
- ▶ Transaction costs
- ▶ All of the given options

Question No: 7 (Marks: 1) - Please choose one

The financial intermediary that obtains funds largely through premium payments and uses those funds to purchase corporate bonds and mortgages is:

- ▶ Credit unions
- ▶ Mutual funds
- ▶ Life insurance companies
- ▶ Pension funds

Question No: 8 (Marks: 1) - Please choose one

Risk sharing is the characteristic of which one of the following?

- ▶ Checks
- ▶ Checking accounts
- ▶ Money
- ▶ Bonds

Question No: 9 (Marks: 1) - Please choose one

Bonds that are issued by Government are called _____.

- ▶ Government bonds
- ▶ Treasury bonds
- ▶ Corporate bonds
- ▶ Callable bonds

Question No: 10 (Marks: 1) - Please choose one

Which of the following is the difference that lies between the options and futures?

- ▶ Options is not binding whereas future is binding
- ▶ Futures carry risks but Options didn't carry risk
- ▶ Centralized clearinghouses guarantee futures but not options contracts
- ▶ There is no difference between options and futures

Question No: 11 (Marks: 1) - Please choose one

Which of the following describes the general formula for the calculation of the compound interest?

- ▶ $FV = PV/(1+i)^n$

▶ $FV = PV/(1-i)^n$

▶ $FV = PV*(1+i)^n$

▶ $FV = PV*(1-i)^n$

Question No: 12 (Marks: 1) - Please choose one

If you put \$1,000 per year into bank at 4% interest, how much would you have saved after 40 years?

▶ \$90,000

▶ \$98,826

▶ \$82,286

▶ \$85,880

right option could (\$95,025.52)

Question No: 13 (Marks: 1) - Please choose one

Which one of the following is the procedure of finding out the Present Value (PV)?

▶ Discounting

▶ Compounding

▶ Time value of money

▶ Bond pricing

Question No: 14 (Marks: 1) - Please choose one

What is true about the relationship between standard deviation and risk?

- ▶ Greater the standard deviation greater will be the risk
- ▶ Greater the standard deviation lower will be the risk
- ▶ Greater the standard deviation risk will be remained the same
- ▶ No relation between them

The greater the standard deviation, the higher the risk

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Question No: 15 (Marks: 1) - Please choose one

Most of the people among us are _____.

- ▶ Risk lovers
- ▶ Risk enhancers
- ▶ Risk averse
- ▶ Risk tolerating

§ Most people don't like risk and will pay to avoid it; most of us are risk averse

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Question No: 16 (Marks: 1) - Please choose one

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

- ▶ Spreading the risk
- ▶ Standard deviation
- ▶ Hedging the risk
- ▶ Variance

Hedging is the strategy of reducing overall risk by making two investments with opposing risks

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Question No: 17 (Marks: 1) - Please choose one

If ABC Inc. and XYZ Inc. have returns that are perfectly negatively correlated:

- ▶ Adding XYZ Inc. to a portfolio that consists of only ABC Inc. will reduce risk
- ▶ Adding ABC Inc. to a portfolio that includes only XYZ Inc. will increase risk
- ▶ Adding XYZ Inc. to a portfolio that consists of only ABC Inc. will neither increase nor decrease the risk of the portfolio
- ▶ Adding XYZ Inc. to a portfolio that consists of only ABC Inc. will lower systematic risk

Question No: 18 (Marks: 1) - Please choose one

Mr. A has a Treasury bill with a maturity period of 6 months where as Mr. B has a bond with a maturity period of 1 year. Which of the following statement is **NOT** true for this situation?

- ▶ Mr. A has paid less price for his bond than Mr. B
- ▶ Mr. A and Mr. B is a holder of zero coupon bond
- ▶ Mr. A will receive payment at the end of the maturity period
- ▶ Mr. B will receive the payment at the end of the maturity period

Question No: 19 (Marks: 1) - Please choose one

Which of the following statement is true for amortized loan?

- ▶ Payment includes interest and full amount of principal
- ▶ Payment includes only the interest
- ▶ Payment includes both interest and some portion of the principal
- ▶ Principal amount is paid fully in the periodic payments

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Each payment includes both interest and some portion of the principal

Question No: 20 (Marks: 1) - Please choose one

Which of the following best describes the relationship between Bond prices and yield?

- ▶ Move together directly
- ▶ Independent of each other
- ▶ Move together inversely
- ▶ Bond yields do not change since the coupon is fixed

Question No: 21 (Marks: 1) - Please choose one

The relationship between the price and the interest rate for a zero coupon bond is best described as _____.

- ▶ Volatile
- ▶ Stable
- ▶ Inverse
- ▶ No relationship

Question No: 22 (Marks: 1) - Please choose one

The price of a 6-month Treasury Bill is _____ the price of a 1-year Treasury Bill.

- ▶ Lower than
- ▶ Higher than
- ▶ Equal to
- ▶ None of the given options

Question No: 23 (Marks: 1) - Please choose one

If YTM is greater than the coupon rate the price of the bond is _____.

- ▶ Greater than its face value
- ▶ Lower than its face value

- ▶ Equals to its face value
- ▶ Insufficient information is given

Question No: 24 (Marks: 1) - Please choose one

Current yield is equal to which of the following?

- ▶ Price paid / yearly coupon payment
- ▶ Price paid *yearly coupon payment
- ▶ Yearly coupon payment / face value of bond
- ▶ Yearly coupon payment / price paid

Question No: 25 (Marks: 1) - Please choose one

The _____ are an assessment of the creditworthiness of the corporate issuer.

- ▶ Bond yield
- ▶ Bond ratings
- ▶ Bond risk
- ▶ Bond price

The bond ratings are an assessment of the credit worthiness of the corporate issuer

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Question No: 26 (Marks: 1) - Please choose one

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

- ▶ Because only interest income they receive from bond is taxable
- ▶ Because principal amount and interest income they receive from bond is taxable
- ▶ Because bond holders are taxpayers
- ▶ Because all bond is sold with a condition that tax will be deducted from its return

Question No: 27 (Marks: 1) - Please choose one

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

- ▶ Higher the tax rate wider the gap between the yield of taxable and tax exempt bond
- ▶ Taxable bond yield is always greater than tax exempt bond
- ▶ Higher the tax rate shorter the gap between yield of taxable and tax exempt bond
- ▶ Lower the tax rate wider the gap between yield of taxable and tax exempt bond

Question No: 28 (Marks: 1) - Please choose one

If the tax rate is higher than gap between yield on taxable and tax exempt bond?

- ▶ Shorter
- ▶ Wider

- ▶ No gap
- ▶ Any thing can be possible

Question No: 29 (Marks: 1) - Please choose one

Which of the following statement is correct about the yield curve?

- ▶ Yield on short term bonds are not more volatile than yield on long term bond
- ▶ Long term yields tend to be higher than short term yield
- ▶ Interest rate of different maturities don't tend to move together
- ▶ None of the given options

Question No: 30 (Marks: 1) - Please choose one

Which one of the following is **NOT** true for the expectation hypothesis?

- ▶ Risk free interest rate can be computed
- ▶ There is uncertainty in the future
- ▶ Identifying yield of bond today that will be available next year
- ▶ It focuses on risk free interest rate and the risk premium

Question No: 31 (Marks: 1) - Please choose one

The slope of the yield curve seems to predict the performance of the economy with:

- ▶ Usually 3 months lag

- ▶ Usually two years lag
- ▶ Usually within few weeks
- ▶ Usually one year lag

Question No: 32 (Marks: 1) - Please choose one

The liquidity premium theory suggests that yield curves should usually be:

- ▶ Up-sloping
- ▶ Inverted
- ▶ Flat
- ▶ Up-sloping through year 1, then flat thereafter

Question No: 33 (Marks: 1) - Please choose one

If we ignore risk, the dividend discount model says the fundamental price of a stock is simply:

- ▶ The current dividend divided by the interest rate less the dividend growth rate
- ▶ The annual growth rate of the dividend minus the interest rate divided by the current dividend
- ▶ The current dividend divided by the interest rate plus the dividend growth rate correct
- ▶ The current dividend divided by the dividend growth rate less the interest rate

Question No: 34 (Marks: 1) - Please choose one

The theory of efficient market states that prices of financial instruments reflect:

- ▶ All available information
- ▶ Some of the information
- ▶ No information
- ▶ Imperfect information

Question No: 35 (Marks: 1) - Please choose one

Without the ability of financial intermediaries to pool the resources of small savers:

- ▶ Borrowers needing large amounts of money would find it less costly to obtain the funds
- ▶ The economy would likely grow faster
- ▶ People would likely save more
- ▶ The risk associated with lending would increase

Question No: 36 (Marks: 1) - Please choose one

If information in a financial market is asymmetric, this means:

- ▶ Borrowers and lenders have the same information
- ▶ Lenders lack any information
- ▶ Borrowers and lenders have perfect information

▶ Borrowers would have more information than lenders

Question No: 37 (Marks: 1) - Please choose one

Previously financial markets were located in which one of the following?

▶ Coffee houses or Taverns

▶ Stock exchanges

▶ Bazaar

▶ Both Coffee houses and Stock exchanges

Question No: 38 (Marks: 1) - Please choose one

Zero-Coupon Bonds are pure discount bonds since they sell at a price

_____.

▶ Equal their face value

▶ Below their face value

▶ Above their face value

▶ None of the given options

Zero coupon bonds are bonds that do not pay interest during the life of the bonds. Instead, investors buy zero coupon bonds at a deep discount from their face value, which is the amount a bond will be worth when it "matures" or comes due. When a zero coupon bond matures, the investor will receive one lump sum equal to the initial investment plus the imputed interest, which is discussed below.

Question No: 39 (Marks: 3)

How Financial System promotes economic efficiency? List down points.ple.

1. They provide the channel for transfer of funds between saver and borrowers
2. provide risk sharing like insurance
3. provide payments like bank accounts
4. Help those people which do not have enough capital to use profitable opportunity.

Question No: 40 (Marks: 3)

Briefly discuss different types of speculative grades of Long term ratings be PACRA.

Sepulative grade means there are possibility of credit risk.

Pacra has B class rating for them

BB shows that there is a possibility of credit risk in making.

B Highly speculative in nature. 'B' it shows that that significant credit risk is there, but a limited

margin of safety remains.

CCC, C,CC High default risk. Chances of deault is a real possibility.

Question No: 41 (Marks: 5)

Suppose that over the past 20 years, the average annual return on investments has been 12%. For each dollar invested at the beginning of the period,How much money would investors have at the end of 20 years?

$$N = 20$$

$$I = 12\% \text{ or } .12$$

$$AMT = 1 \$$$

$$FV = ?$$

$$FV = amt * FVIF = [(1+i)^n - 1] / i$$

$$FVIF = [(1.12)^{20} - 1] / .12 = 72.05$$

$$FV = 1 * 72.05 = 72.05$$

BR>

MIDTERM EXAMINATION

Spring 2010

MGT411- Money & Banking (Session - 2)

Time: 60 min

Marks: 44

Student Info

StudentID:

Center:	OPKST
ExamDate:	5/26/2010 12:00:00 AM

For Teacher's Use Only

Q No.	1	2	3	4	5	6	7	8	Total
Marks									
Q No.	9	10	11	12	13	14	15	16	
Marks									
Q No.	17	18	19	20	21	22	23	24	
Marks									
Q No.	25	26	27	28	29	30	31	32	
Marks									

Question No: 1 (Marks: 1) - Please choose one

Which of the following are used to transfer resources from savers to investors and to transfer risk to those who best equipped it?

- ▶ Financial markets
- ▶ **Financial instruments**
- ▶ Financial institutions
- ▶ Banks

Refrance page num 2

2. Financial Instruments

- ☐ To transfer wealth from savers to borrowers
- ☐ To transfer risk to those best equipped to bear it.
- ☐ Once investing was an activity reserved for the wealthy
- ☐ Costly individual stock transactions through stockbrokers
- ☐ Information collection was not so easy
- ☐ Now, small investors have the opportunity to purchase shares in "mutual funds."

Question No: 2 (Marks: 1) - Please choose one

The reason for the government to get involved in the financial system is to:

- ▶ Protect investors
- ▶ Ensure the stability of the financial system
- ▶ Protect bank customers from monopolistic exploitation
- ▶ **All of the given options**

Refrance page num 92

There are three reasons for the government to get involved in the financial system

- ☐ To protect investors
- ☐ To protect bank customers from monopolistic exploitation
- ☐ To ensure the stability of the financial system

Question No: 3 (Marks: 1) - Please choose one

_____ A
Financial Intermediary:

- ▶ Is an agency that guarantees a loan
- ▶ Is involved in direct finance
- ▶ **Would be used in indirect finance**
- ▶ None of the given options

Question No: 4 (Marks: 1) - Please choose one

A

derivative instrument:

- ▶ **Gets its value and payoff from the performance of the underlying instrument**
- ▶ Is a high risk financial instrument used by highly risk averse savers
- ▶ Comes into existence after the underlying instrument is in default
- ▶ Should be purchased prior to purchasing the underlying security

Page num 16

Derivative Instruments

- ☐ **Value and payoffs are “derived from” the behavior of the underlying instruments**

Question No: 5 (Marks: 1) - Please choose one

The financial intermediary that obtains funds largely through premium payments and uses those funds to purchase corporate bonds and mortgages is:

- ▶ Credit unions
- ▶ Mutual funds
- ▶ **Life insurance companies**
- ▶ Pension funds

Ref page 21

Question No: 6 (Marks: 1) - Please choose one

Which one of the following financial instrument is NOT primarily used as store of value?

- ▶ Banks loans
- ▶ Asset-backed securities
- ▶ **Insurance contracts**
- ▶ Stocks

Ref page 17

Primarily Stores of Value

- ☐ **Bank Loans**
- ☐ **A borrower obtains resources from a lender immediately in exchange for a promised set of payments in the future**
- ☐ **Bonds**
- ☐ **A form of a loan, whereby in exchange for obtaining funds today a government or corporation**

promises to make payments in the future

- ☐ **Home Mortgages**
- ☐ **A loan that is used to purchase real estate**
- ☐ **The real estate is collateral for the loan,**
- ☐ **It is a specific asset pledged by the borrower in order to protect the interests of the lender in the event of nonpayment.**
- ☐ **If payment is not made the lender can foreclose on the property.**
- ☐ **Stocks**
- ☐ **An owner of a share owns a piece of the firm and is entitled to part of its profits.**

Question No: 7 (Marks: 1) - Please choose one

Which one of the following represents the main purpose for which the secondary markets are made?

- ▶ **Small investors who don't have an access to new securities**
- ▶ Primary market is not enough for buying and selling of securities
- ▶ Large investors usually traded in these markets
- ▶ Prices in the secondary markets are known to investors

Question No: 8 (Marks: 1) - Please choose one

Which one of the following is **NOT** an example of Centralized exchange?

- ▶ New York Stock Exchange
- ▶ NASDAQ
- ▶ **Large exchanges in London**
- ▶ Large exchanges in Tokyo

Question No: 9 (Marks: 1) - Please choose one

What will be the effect on the present value if we double the future value of the payment?

- ▶ It will decrease the value by one-half
- ▶ It will increase the value by one-half
- ▶ **It will equally increase the value i.e. doubles the value**
- ▶ It will have no effect on the value

Question No: 10 (Marks: 1) - Please choose one

The interest rate that is involved in _____ calculation is referred to as discount rate

- ▶ **Present value**
- ▶ Future value

- ▶ Intrinsic value
- ▶ Discount value

Question No: 11 (Marks: 1) - Please choose one

A

credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called:

- ▶ Simple loan
- ▶ Fixed-payment loan
- ▶ **Coupon bond**
- ▶ Discount bond

Question No: 12 (Marks: 1) - Please choose one

Mary is planning on taking out a mortgage loan for her new house. She is given the choice of two different banks: Bank A has quoted annual rate of 8% compounded semi-annually and Bank B has a quoted annual rate of 7.5% compounded for a certain number of times a year. Which bank should Mary choose?

- ▶ Bank A
- ▶ Bank B
- ▶ Indifferent between Bank A and Bank B
- ▶ **Insufficient information**

Question No: 13 (Marks: 1) - Please choose one

_____ For
a \$1000 one year discount bond with a price of \$975, the yield to maturity is which of the following?

- ▶ $\$975/\1000
- ▶ $(\$1000 - \$975)/\$975$
- ▶ $(\$1000 - \$975)/(\$1000)$
- ▶ **$\$1000/\975**

Cuppon rate/ market price**Question No: 14 (Marks: 1) - Please choose one**

_____ If
YTM equals the coupon rate the price of the bond is _____.

- ▶ Greater than its face value
- ▶ Lower than its face value
- ▶ **Equals to its face value**
- ▶ Insufficient information is given

Ref chaptor 14 start**Question No: 15 (Marks: 1) - Please choose one**

_____ If
YTM is less than the coupon rate the price of the bond is _____.

- ▶ **Greater than its face value**
- ▶ Lower than its face value
- ▶ Equals to its face value
- ▶ Insufficient information is given

Ref chapter 14 start

Page 43

Yield to Maturity: General Relationships

- ☐ General Relationships
- ☐ **If the yield to maturity equals the coupon rate, the price of the bond is the same as its face value.**
- ☐ If the yield is greater than the coupon rate, the price is lower;
- ☐ **if the yield is below the coupon rate, the price is greater**
- ☐ If you buy a bond at a price less than its face value you will receive its interest and a capital gain,
which is the difference between the price and the face value.
- ☐ As a result you have a higher return than the coupon rate
- ☐ When the price is above the face value, the bondholder incurs a capital loss and the bond's yield to maturity falls below its coupon rate

Question No: 16 (Marks: 1) - Please choose one

Current yield is equal to which of the following?

- ▶ Price paid / yearly coupon payment

- ▶ Price paid *yearly coupon payment
- ▶ Yearly coupon payment / face value of bond
- ▶ **Yearly coupon payment / price paid**

Question No: 17 (Marks: 1) - Please choose one

_____ For
a \$100 one-year zero-coupon bond, the supply will be _____ at
\$95 than it will be at \$90, all other things being equal.

- ▶ **Higher than before**
- ▶ Lower than before
- ▶ Stable
- ▶ Insufficient information

**For a \$100 one-year zero-coupon bond, the supply will be higher at
\$95 than it will be at \$90, all
other things being equal.**

Question No: 18 (Marks: 1) - Please choose one

_____ An
increase in the expected inflation shifts the bond supply to the

- ▶ **Right**
- ▶ Left

- ▶ No change
- ▶ None of the given options

An increase in expected inflation shifts bond supply to the right and bond demand to the left.

Question No: 19 (Marks: 1) - Please choose one

The default premium:

- ▶ Is positive for a U.S. Treasury bond
- ▶ Must always be less than 0 (zero)
- ▶ **Is also known as the risk spread**
- ▶ Is assigned by a bond rating agency

Question No: 20 (Marks: 1) - Please choose one

Calculate tax implication on Bond yields. Consider a one year bond face value Rs.100 (issued by Government) with coupon rate of 6%.What is the income of bond that is received at maturity? (Tax rate is 30%).

- ▶ Rs.6
- ▶ Rs.1.80
- ▶ **Rs.4.20**

► Rs.7.80

Tax-Exempt Bond Yield = (Taxable Bond Yield) x (1 - Tax Rate).

Question No: 21 (Marks: 1) - Please choose one

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

► **Because only interest income they receive from bond is taxable**

► Because principal amount and interest income they receive from bond is taxable

► Because bond holders are taxpayers

► Because all bond is sold with a condition that tax will be deducted from its return

The important factor that affects the return on a bond is taxes

Bondholders must pay income tax on the interest income they receive from privately issued

Question No: 22 (Marks: 1) - Please choose one

Expectation hypothesis focuses on which one of the following?

► Risk premium

- ▶ **Risk free interest rate**
- ▶ Yield to maturity
- ▶ None of the given options

Reference:

Expectations Hypothesis

The risk-free interest rate can be computed, assuming that there is no uncertainty about the future

Question No: 23 (Marks: 1) - Please choose one

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

- ▶ Short-term interest rates to rise sharply
- ▶ **Short-term interest rates to stay near their current levels**
- ▶ Short-term interest rates to drop sharply
- ▶ Short-term interest rates does not change

Question No: 24 (Marks: 1) - Please choose one

The Theory of Efficient Markets:

- ▶ **Allows for higher than average returns if the investor takes higher risk**
- ▶ Says Insider-information makes markets less efficient
- ▶ Rules out high returns due to chance

- ▶ Assumes people have equal luck

Question No: 25 (Marks: 1) - Please choose one

_____ If
information in a financial market is asymmetric, this means:

- ▶ Borrowers and lenders have the same information
- ▶ Lenders lack any information
- ▶ Borrowers and lenders have perfect information
- ▶ **Borrowers would have more information than lenders**

Question No: 26 (Marks: 1) - Please choose one

Often a bank will require a loan officer to make personal visits on customers with loans outstanding. This is encouraged because:

- ▶ The bank worries about competitors trying to steal their customers
- ▶ The bank wants to make sure the business is still there
- ▶ The bank likely has excess funds available and hopes to make another loan to the business
- ▶ **This is an effective monitoring technique and should reduce moral hazard**

Question No: 27 (Marks: 1) - Please choose one

Financial instruments are used to transfer which of the following?

▶ **Both Risk and Resources**

- ▶ Risk
- ▶ Resources
- ▶ Mortgages

Question No: 28 (Marks: 1) - Please choose one

Which of the following has created an opportunity for small investors to participate in economic activity?

▶ **Mutual funds**

- ▶ Small corporations
- ▶ Stock brokers
- ▶ Small investors cannot take part in economic activity

Question No: 29 (Marks: 3)

Find out YTM of 1 year 12% coupon bond selling at \$130. (Face value of bond = \$100).

Question No: 30 (Marks: 3)

Why stocks are risky?

Question No: 31 (Marks: 5)

Discuss the negative consequences of information costs and also suggest their solution.

Question No: 32 (Marks: 5)

Ahmad purchases a 10 year 8% coupon bond with the face value of \$100. He wants to hold this bond for 1-year and then sells a 9-year bond after 1-year.

(i) If interest rate does not change then what will be the rate of return?

(ii) If interest rate falls to 6% then suppose price increases to \$109.16. What will be the capital gain after the price rise?

(iii) After the price rise, what will be the one year holding period return?

MIDTERM EXAMINATION**Spring 2009****MGT411- Money & Banking (Session - 2)****Question No: 1 (Marks: 1) - Please choose one**

Which of the following are without maturity dates?

- ▶ Zero coupon bonds
- ▶ Coupon securities
- ▶ **Consols**
- ▶ Preferred Bonds

Question No: 2 (Marks: 1) - Please choose one

Which of the following institution takes direct deposit from customer and gives loan to customer directly?

- ▶ Zarai Tarkaytee Bank LTD
- ▶ Soneri Bank
- ▶ Khushali Bank
- ▶ **Credit union**

Question No: 3 (Marks: 1) - Please choose one

_____ Mr. Ghazanfar obtains a home improvement loan from Allied Bank. This loan is:

- ▶ Mr. Ghazanfar's asset and the bank's liability
- ▶ Mr. Ghazanfar 's asset, but the liability belongs to the bank's depositors
- ▶ **Mr. Ghazanfar 's liability and an asset for the bank**
- ▶ Both Mr. Ghazanfar's and bank's liability

Question No: 4 (Marks: 1) - Please choose one

Components of M_1 **DO NOT** include which one of the following?

- ▶ Currency in the hands of public
- ▶ Demand deposits
- ▶ **Small denominations time deposit**
- ▶ Checkable deposits

Question No: 5 (Marks: 1) - Please choose one

Which of the following has created an opportunity for small investors to participate in economic activity?

- ▶ **Mutual funds**

- ▶ Small corporations
- ▶ Stock brokers
- ▶ Small investors cannot take part in economic activity

Question No: 6 (Marks: 1) - Please choose one

Which of the following is *NOT* an example of financial institutions?

- ▶ Bank
- ▶ Securities firm
- ▶ **Stock exchange**
- ▶ Insurance company

Question No: 7 (Marks: 1) - Please choose one

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

- ▶ Free-riding
- ▶ **Moral hazard**
- ▶ Adverse selection
- ▶ The Lemons market

Question No: 8 (Marks: 1) - Please choose one

_____ In
a financial market where information is symmetric:

▶ **The same information would be known by both parties in a transaction**

▶ One party to a transaction knows information the other party does not

▶ The ability to obtain information is available to only one party

▶ All of the given options

Question No: 9 (Marks: 1) - Please choose one

_____ When stock prices reflect fundamental values:

▶ All investors will experience capital gains

▶ All companies will have an easier task of obtaining financing for investment projects

▶ **The allocation of resources will be more efficient**

▶ The overall level of the stock market should move higher continuously

Question No: 10 (Marks: 1) - Please choose one

_____ An
index number is a valuable tool because:

▶ The number by itself provides all of the useful information needed

► **The index provides a meaningful measurement scale to calculate percentage changes**

- The index is more stable than the data it reflects
- It does not require any calculations to compute percentage changes

Question No: 11 (Marks: 1) - Please choose one

The concept of limited liability says **a stockholder** of a corporation:

- Is liable for the corporation's liabilities, but nothing more
- Cannot receive dividends that exceed their investment
- Cannot own more than five percent of any public corporation
- **Cannot lose more than their investment**

Question No: 12 (Marks: 1) - Please choose one

Other things remaining equal, the liquidity premium theory is based upon the idea that _____.

- Investors prefer long-term bonds
- **Investors prefer short-term bonds**
- Investors are indifferent between short-term and long-term bonds
- Investors prefer intermediate-term bonds

Question No: 13 (Marks: 1) - Please choose one

Which one of the following is **NOT** true for the expectation hypothesis?

- ▶ Risk free interest rate can be computed
- ▶ There is uncertainty in the future
- ▶ Identifying yield of bond today that will be available next year
- ▶ **It focuses on risk free interest rate and the risk premium**

Question No: 14 (Marks: 1) - Please choose one

_____ A
graph of the term structure with YTM on Y-axis and time to maturity on X-axis is called:

- ▶ Demand curve
- ▶ Supply curve
- ▶ **Yield curve**
- ▶ Leffer curve

Question No: 15 (Marks: 1) - Please choose one

	Bond A	Bond B
Maturity	5 years	10 years

Default risk	5%	5%
Tax rate	30%	30%
Yield	?	?

See the above table and choose the one option which is **NOT** correct about the yield of Bond A and Bond B?

► **Bond tax status and default rate are not the only factors that affect the yield of the two bonds**

► Bond A has different yield from that of Bond B because of change in maturity period

► Yields of both the bonds are not disturbed by maturity period

► Yield of Bond B depends on what people expect to happen in years to come

Question No: 16 (Marks: 1) - Please choose one

The _____ are an assessment of the creditworthiness of the corporate issuer.

► Bond yield

► **Bond ratings**

► Bond risk

► Bond price

Question No: 17 (Marks: 1) - Please choose one

The bond rating of a security refers to which of the followings?

- ▶ The size of the coupon payment relative to the face value
- ▶ The return a holder is likely to receive
- ▶ **The likelihood the lender/borrower will be repaid by the borrower/issuer**
- ▶ The years until the bond matures

Question No: 18 (Marks: 1) - Please choose one

_____ An increase in the expected inflation shifts the bond demand to the _____

- ▶ **Right**
- ▶ Left
- ▶ No change
- ▶ None of the given options

Question No: 19 (Marks: 1) - Please choose one

_____ The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

- ▶ **6.25%**
- ▶ 7.50%

▶ 8.00%

▶ 5.00%

Question No: 20 (Marks: 1) - Please choose one

_____ If
the annual interest rate is 6% (.06); the price of a one year Treasury bill would be:

▶ \$94.00

▶ **\$94.33**

▶ \$95.25

▶ \$96.10

Question No: 21 (Marks: 1) - Please choose one

_____ The return on holding a bond till its maturity is called:

▶ Coupon rate

▶ **Yield to maturity**

▶ Current yield

▶ Fixed return

Question No: 22 (Marks: 1) - Please choose one

Which of the following best describes the relationship between Bond prices and yields?

- ▶ Move together directly
- ▶ Independent of each other
- ▶ **Move together inversely**
- ▶ Bond yields do not change since the coupon is fixed

Question No: 23 (Marks: 1) - Please choose one

Mr. A has a Treasury bill with a maturity period of 6 months where as Mr. B has a bond with a maturity period of 1 year. Which of the following statement is **NOT** true for this situation?

- ▶ Mr. A has paid less price for his bond than Mr. B
- ▶ **Mr. A and Mr. B is a holder of zero coupon bond**
- ▶ Mr. A will receive payment at the end of the maturity period
- ▶ Mr. B will receive the payment at the end of the maturity period

Question No: 24 (Marks: 1) - Please choose one

What is true relationship between return and risk?

- ▶ Lower the risk greater the return
- ▶ **Greater the risk greater the return**

- ▶ Greater the risk no change in return
- ▶ No relationship between them

Question No: 25 (Marks: 1) - Please choose one

Sum of all the probabilities should be equal to which one of the following?

- ▶ Zero
- ▶ **One**
- ▶ Two
- ▶ Three

Question No: 26 (Marks: 1) - Please choose one

_____ measures the probability of worst outcome in any investment project.

- ▶ Variance
- ▶ Standard deviation
- ▶ **Value at risk**
- ▶ Hedging

Question No: 27 (Marks: 1) - Please choose one

The variance is generally less useful than the standard deviation on which of the following reasons?

- ▶ Variance is easier to calculate
- ▶ Variance is a measure of risk, whereas standard deviation is a measure of return
- ▶ **Variance isn't calculated in the same units as payoffs where as standard deviation is**
- ▶ Both are equally useful

Question No: 28 (Marks: 1) - Please choose one

_____ A
credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called:

- ▶ Simple loan
- ▶ Fixed-payment loan
- ▶ **Coupon bond**
- ▶ Discount bond

Question No: 29 (Marks: 1) - Please choose one

Which of the following provides the greatest incentive to borrow?

- ▶ A high real interest rate

- ▶ **A low real interest rate**
- ▶ A high nominal interest rate
- ▶ A low nominal interest rate

Question No: 30 (Marks: 1) - Please choose one

_____ An investment carrying a current cost of \$130,000 is going to generate \$70,000 of revenue for each of the next three years. To calculate the internal rate of return we need to:

- ▶ Calculate the present value of each of the \$70,000 payments and multiply these and set this equal to \$130,000
- ▶ Take the present value of \$210,000 for three years from now and set this equal to \$130,000
- ▶ **Set the sum of the present value of \$70,000 for each of the next three years equal to \$130,000**
- ▶ Subtract \$130,000 from \$210,000 and set this difference equal to the interest rate

Question No: 31 (Marks: 1) - Please choose one

_____ A borrower is promised a \$100 payment (including interest) one year from today. If the lender has an 8% opportunity cost of money, he should be willing to accept what amount today?

- ▶ Rs.100.00
- ▶ Rs.108.20

▶ **Rs.92.59**

▶ Rs.96.40

Question No: 32 (Marks: 1) - Please choose one

Which one of the following is **NOT** an example of Centralized exchange?

- ▶ New York Stock Exchange
- ▶ NASDAQ
- ▶ **Large exchanges in London**
- ▶ Large exchanges in Tokyo

Question No: 33 (Marks: 1) - Please choose one

Financial intermediaries provide small lender-savers all of the following advantages **EXCEPT**:

- ▶ **Greater liquidity**
- ▶ Lower transaction cost
- ▶ Lower risk
- ▶ Higher return

Question No: 34 (Marks: 1) - Please choose one

The shares of McDonald Corporation stock are examples of:

- ▶ **A standardized financial instrument**
- ▶ A standardized financial liability instrument
- ▶ A non-standardized financial instrument
- ▶ A means of payment

Question No: 35 (Marks: 1) - Please choose one

Which of the following statements is **NOT** correct?

- ▶ **Banks are financial intermediaries**
- ▶ Financial intermediary involves in giving loan and accepting deposit
- ▶ All financial intermediaries are insurance companies
- ▶ Financial intermediaries increase the efficiency of the economy

Question No: 36 (Marks: 1) - Please choose one

Economic research shows:

- ▶ There is a strong inverse correlation between financial market development and economic growth
- ▶ There is weak relation between financial market development and economic growth around 0.25

► **There is a relatively strong positive correlation between financial market development and economic growth**

► There isn't any correlation between financial market development and economic growth <http://vustudents.ning.com>

Question No: 37 (Marks: 1) - Please choose one

Which of the following statements is correct?

► If you can buy the same goods this year as you bought last year with less money the money supply decreased.

► **To purchase the same goods today that were purchased one year ago requires more money, there must have been inflation**

► To purchase the same goods today as one year ago requires less money, the money supply must have increased

► To purchase the same goods today that were purchased one year ago requires the same amount of money, there must have been inflation

Question No: 38 (Marks: 1) - Please choose one

The one that you get from bank when you open your checking account is _____.

► **Debit card**

► Credit card

► Store value card

- ▶ Customer card

Question No: 39 (Marks: 1) - Please choose one

Wealth can be held in number of other forms but we use to hold money because of which one of the following reason?

- ▶ It is the only mode of payment
- ▶ It is an asset
- ▶ **It is most liquid**
- ▶ It is the only store of value

Question No: 40 (Marks: 1) - Please choose one

Which of the following are used to monitor and stabilize the economy?

- ▶ Stock exchanges
- ▶ Commercial Banks
- ▶ **Central Banks**
- ▶ Financial institutions

Question No: 41 (Marks: 10)

_____ “A financial instrument is a real or virtual document representing a legal

agreement involving some sort of monetary value." Discuss further on financial instruments by giving examples. Point out some of its uses and important characteristics.

ANSWER: Financial Instrument: Financial instrument is a written obligation of one party to transfer something of value to another party at a future date under certain conditions.

- By written obligation we mean that it is enforced by the government and this obligation is an important feature of a financial instrument.
- The party here can be an individual, company or a government
- Future date can be specified or when some event occurs.

Examples: Stocks, bonds, insurance etc are examples of financial instruments.

Characteristics of Financial Instruments: There are certain characteristics of financial instruments.

5. **Standardization:** It is a standardized agreement which enables reduction in costs of complexity. So because of this most financial instruments today are similar.
6. **Communicate Information:** Provide certain important information about the issuer which otherwise would have been difficult to gather for the lenders.

Value of Financial Instruments: The value of financial instruments depends on various factors.

- **Size:** Larger the promised payment more valuable is the financial instrument.
- **Timing:** The sooner the payment is made increases the value of

financial instrument.

- **Risk:** A financial instrument is more valuable if there are greater possibilities that payment will be made.
- **Circumstances:** Payments made when needed the most makes the financial instrument more valuable.

Uses of Financial Instruments:

- **Store Of Value:**

Stocks: The stock holder is a part owner of the firm and receives part of its profits.

Bonds: A form of loan which promises to make repayment in future dates.

Bank loans: Borrowers obtains resources from lenders in exchange of promised payments.

- **Transfer of Risk:**

Insurance: Takes premium to assure payment under particular conditions (accident, death etc)

Future contracts: It is an agreement to exchange fixed quantity of a commodity or an asset at a fixed price. Transfer risk of price fluctuations.

Options: Gives holder the right to purchase fixed quantity of an underlying asset at predetermined price within a specific period.

MIDTERM EXAMINATION

Spring 2010

MGT411- Money & Banking (Session - 2)

Time: 60 min

Marks: 44

Student Info	
StudentID:	
Center:	OPKST
ExamDate:	5/26/2010 12:00:00 AM

For Teacher's Use Only									
Q No.	1	2	3	4	5	6	7	8	Total
Marks									
Q No.	9	10	11	12	13	14	15	16	
Marks									
Q No.	17	18	19	20	21	22	23	24	
Marks									
Q No.	25	26	27	28	29	30	31	32	
Marks									

Question No: 1 (Marks: 1) - Please choose one

Which of the following are used to transfer resources from savers to investors and to transfer risk to those who best equipped it?

- ▶ Financial markets
- ▶ Financial instruments
- ▶ Financial institutions
- ▶ Banks

Question No: 2 (Marks: 1) - Please choose one

The reason for the government to get involved in the financial system is to:

- ▶ Protect investors
- ▶ Ensure the stability of the financial system
- ▶ Protect bank customers from monopolistic exploitation
- ▶ All of the given options

Question No: 3 (Marks: 1) - Please choose one

Financial Intermediary:

- ▶ Is an agency that guarantees a loan

- ▶ Is involved in direct finance
- ▶ Would be used in indirect finance
- ▶ None of the given options

Question No: 4 (Marks: 1) - Please choose one

A

derivative instrument:

- ▶ Gets its value and payoff from the performance of the underlying instrument
- ▶ Is a high risk financial instrument used by highly risk averse savers
- ▶ Comes into existence after the underlying instrument is in default
- ▶ Should be purchased prior to purchasing the underlying security

Question No: 5 (Marks: 1) - Please choose one

The financial intermediary that obtains funds largely through premium payments and uses those funds to purchase corporate bonds and mortgages is:

- ▶ Credit unions
- ▶ Mutual funds
- ▶ Life insurance companies

- ▶ Pension funds

Question No: 6 (Marks: 1) - Please choose one

Which one of the following financial instrument is **NOT** primarily used as store of value?

- ▶ Banks loans
- ▶ Asset-backed securities
- ▶ **Insurance contracts**
- ▶ Stocks

Question No: 7 (Marks: 1) - Please choose one

Which one of the following represents the main purpose for which the secondary markets are made?

- ▶ **Small investors who don't have an access to new securities**
- ▶ Primary market is not enough for buying and selling of securities
- ▶ Large investors usually traded in these markets
- ▶ Prices in the secondary markets are known to investors

Question No: 8 (Marks: 1) - Please choose one

Which one of the following is **NOT** an example of Centralized exchange?

- ▶ New York Stock Exchange
- ▶ NASDAQ
- ▶ Large exchanges in London
- ▶ Large exchanges in Tokyo

Question No: 9 (Marks: 1) - Please choose one

What will be the effect on the present value if we double the future value of the payment?

- ▶ It will decrease the value by one-half
- ▶ It will increase the value by one-half
- ▶ It will equally increase the value i.e. doubles the value
- ▶ It will have no effect on the value

Question No: 10 (Marks: 1) - Please choose one

The interest rate that is involved in _____ calculation is referred to as discount rate

- ▶ Present value
- ▶ Future value

- ▶ Intrinsic value
- ▶ Discount value

Question No: 11 (Marks: 1) - Please choose one

A

credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called:

- ▶ Simple loan
- ▶ Fixed-payment loan
- ▶ **Coupon bond**
- ▶ Discount bond

Question No: 12 (Marks: 1) - Please choose one

Mary is planning on taking out a mortgage loan for her new house. She is given the choice of two different banks: Bank A has quoted annual rate of 8% compounded semi-annually and Bank B has a quoted annual rate of 7.5% compounded for a certain number of times a year. Which bank should Mary choose?

- ▶ Bank A
- ▶ **Bank B**
- ▶ Indifferent between Bank A and Bank B
- ▶ Insufficient information

Question No: 13 (Marks: 1) - Please choose one

_____ For
a \$1000 one year discount bond with a price of \$975, the yield to maturity is which of the following?

- ▶ $\$975/\1000
- ▶ $(\$1000 - \$975)/\$975$
- ▶ $(\$1000 - \$975)/(\$1000)$
- ▶ $\$1000/\975

Question No: 14 (Marks: 1) - Please choose one

_____ If
YTM equals the coupon rate the price of the bond is _____.

- ▶ Greater than its face value
- ▶ Lower than its face value
- ▶ Equals to its face value
- ▶ Insufficient information is given

Question No: 15 (Marks: 1) - Please choose one

_____ If
YTM is less than the coupon rate the price of the bond is _____.

- ▶ Greater than its face value
- ▶ Lower than its face value

- ▶ Equals to its face value
- ▶ Insufficient information is given

Question No: 16 (Marks: 1) - Please choose one

Current yield is equal to which of the following?

- ▶ Price paid / yearly coupon payment
- ▶ Price paid *yearly coupon payment
- ▶ Yearly coupon payment / face value of bond
- ▶ Yearly coupon payment / price paid

Question No: 17 (Marks: 1) - Please choose one

_____ For a \$100 one-year zero-coupon bond, the supply will be _____ at \$95 than it will be at \$90, all other things being equal.

- ▶ Higher than before
- ▶ Lower than before
- ▶ Stable
- ▶ Insufficient information

Question No: 18 (Marks: 1) - Please choose one

_____ An
increase in the expected inflation shifts the bond supply to the

▶ Right

- ▶ Left
- ▶ No change
- ▶ None of the given options

Question No: 19 (Marks: 1) - Please choose one

_____ The default premium:

- ▶ Is positive for a U.S. Treasury bond
- ▶ Must always be less than 0 (zero)
- ▶ Is also known as the risk spread
- ▶ Is assigned by a bond rating agency

Question No: 20 (Marks: 1) - Please choose one

_____ Calculate tax implication on Bond yields. Consider a one year bond face value Rs.100 (issued by Government) with coupon rate of 6%. What is the income of bond that is received at maturity? (Tax rate is 30%).

- ▶ Rs.6
- ▶ Rs.1.80

- ▶ Rs.4.20
- ▶ Rs.7.80

Question No: 21 (Marks: 1) - Please choose one

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

- ▶ Because only interest income they receive from bond is taxable
- ▶ Because principal amount and interest income they receive from bond is taxable
- ▶ Because bond holders are taxpayers
- ▶ Because all bond is sold with a condition that tax will be deducted from its return

Question No: 22 (Marks: 1) - Please choose one

Expectation hypothesis focuses on which one of the following?

- ▶ Risk premium
- ▶ Risk free interest rate
- ▶ Yield to maturity
- ▶ None of the given options

Question No: 23 (Marks: 1) - Please choose one

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

- ▶ Short-term interest rates to rise sharply
- ▶ Short-term interest rates to stay near their current levels
- ▶ Short-term interest rates to drop sharply
- ▶ Short-term interest rates does not change

Question No: 24 (Marks: 1) - Please choose one

The Theory of Efficient Markets:

▶ Allows for higher than average returns if the investor takes higher risk

- ▶ Says Insider-information makes markets less efficient
- ▶ Rules out high returns due to chance
- ▶ Assumes people have equal luck

Question No: 25 (Marks: 1) - Please choose one

_____ If information in a financial market is asymmetric, this means:

- ▶ Borrowers and lenders have the same information
- ▶ Lenders lack any information

- ▶ Borrowers and lenders have perfect information
- ▶ Borrowers would have more information than lenders

Question No: 26 (Marks: 1) - Please choose one

Often a bank will require a loan officer to make personal visits on customers with loans outstanding. This is encouraged because:

- ▶ The bank worries about competitors trying to steal their customers
- ▶ The bank wants to make sure the business is still there
- ▶ The bank likely has excess funds available and hopes to make another loan to the business
- ▶ This is an effective monitoring technique and should reduce moral hazard

Question No: 27 (Marks: 1) - Please choose one

Financial instruments are used to transfer which of the following?

- ▶ Both Risk and Resources
- ▶ Risk
- ▶ Resources
- ▶ Mortgages

Question No: 28 (Marks: 1) - Please choose one

Which of the following has created an opportunity for small investors to participate in economic activity?

- ▶ Mutual funds
- ▶ Small corporations
- ▶ Stock brokers
- ▶ Small investors cannot take part in economic activity

Question No: 29 (Marks: 3)

Find out YTM of 1 year 12% coupon bond selling at \$130. (Face value of bond = \$100).

Question No: 30 (Marks: 3)

Why stocks are risky?

Question No: 31 (Marks: 5)

Discuss the negative consequences of information costs and also suggest their solution.

Question No: 32 (Marks: 5)

Ahmad purchases a 10 year 8% coupon bond with the face value of \$100. He wants to hold this bond for 1-year and then sells a 9-year bond after 1-year.

(i) If interest rate does not change then what will be the rate of return?

(ii) If interest rate falls to 6% then suppose price increases to \$109.16. What will be the capital gain after the price rise?

(iii) After the price rise, what will be the one year holding period return?

Question # 1

Wider the range of outcome wider will be the _____.

Select correct option:

Risk

Profit

Probability

Lose

Question # 2

The interest rate that is involved in _____ calculation is referred to as discount rate

Select correct option:

Present value

Future value

Intrinsic value

Discount value

Question # 3

The return on holding a bond till its maturity is called:

Select correct option:

Coupon rate

Yield to maturity

Current yield

Internal rate of return

Question # 4

following represents the fisher's equation?

Select correct option:

Nominal interest rate = real interest rate + inflation

Nominal interest rate + inflation = real interest rate

Nominal interest rate = real interest rate - inflation

Nominal interest rate = real interest rate / inflation

Question # 5

Bonds without maturity dates are which of the followings?

Select correct option:

Zero coupon bonds

Coupon securities

Consols

Preferred Bonds

Question # 6

A risk-averse investor will:

Select correct option:

Always prefer an investment with a lower expected return

Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty

Always require a certain return

Always focus exclusively on the expected return

Question # 7

GDP deflator is called

Select correct option:

Retailer price index

Consumer price index

Producer price index

None of above

Question # 8

What will be the effect on the present value if we double the future value of the payment?

Select correct option:

It will decrease the value by one-half

It will increase the value by one-half

It will equally increase the value i.e. doubles the value

It will have no effect on the value

Question # 9

Government bonds called Where as corporate bonds are called

Select correct option:

Zero coupon bond, coupon bond

Risky bond. Risk free bond

T bill, corporate bond

Console bond, junk bonds

Question # 10

Beside default risk which one if the following factor affects the return on bond?

Select correct option:

Taxes

Monetary policy

Junk bonds

Debt

Question # 11

Which of the following are used to monitor and stabilize the economy?

Select correct option:

Stock exchanges

Commercial Banks

Central Banks

Financial institutions

Question # 12

What will be the result of the difference of real and nominal interest rate?

Select correct option:

The cost of borrowing

The effect of inflation

The price of bonds

The return of bonds

Question # 13

Which of the following expresses 6.5%?

Select correct option:

0.0065

6.50

0.650

0.0650

Question # 14

Diversification is the principle of:

Select correct option:

Holding more than one risk at a time

Reducing the risks we carry to just two

Creating risk to increase returns

Eliminating investments from our portfolio that have idiosyncratic risk

Question # 15

Current accounts of commercial bank lies in which money aggregate definition?

Select correct option:

Currency

M1

M2

M3

Question # 16

Which of the following would be considered characteristic of money?

Select correct option:

It is store of value

It pays a higher return than most assets

It is in fixed supply

It is legal tender everywhere in the world

Question # 17

When the price of a bond is above face value:

Select correct option:

The yield to maturity will be above the coupon rate

The yield to maturity is below the coupon rate

The yield to maturity will equal zero

The yield to maturity will equal the coupon rate

Question # 19

_____ is the value today of a payment that is promised to be made in the future.

Select correct option:

Future value

Present value

Agreed value

None of the given options

Question # 20

Which of the following best describes default risk?

Select correct option:

The chance the issuer will be unable to make interest payments or repay principal

The chance the issuer will retire the debt early

The chance the issuing firm will be sold to another firm

The chance the issuer will sell more debt

Question # 21

Considering the Liquidity Premium Theory, if investors expect short term interest rates to decrease:

Select correct option:

The yield curve must have a positive slope

The yield curve must be inverted

The yield curve could be flat

The slope of the yield curve should actually increase

Question # 23

Which of the following would probably NOT earn an A rating from Standard & Poor's:

Select correct option:

30 years bond issued by the U.S. Treasury

New vegetarian fast-food chain

90 days T-Bills issued by the U.S. Treasury

Both 30 years bond and 90 days T-Bills issued by U.S. Treasury

Question # 24

If YTM is greater than the coupon rate the price of the bond is _____.

Select correct option:

Greater than its face value

Lower than its face value

Equals to its face value

All of the given options

Question # 25

If the annual interest rate is 6%, the price of a 1-year Treasury bill with \$100 face value would be:

Select correct option:

\$94.00

\$94.33

\$95.25

\$96.10

Question # 26

Time affects the value of which of the following?

Select correct option:

Financial Instruments

Financial Markets

Financial Institutions

Central Banks

Question # 27

A risk-averse investor will:

Select correct option:

Always prefer an investment with a lower expected return

Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty

Always require a certain return

Always focus exclusively on the expected return

Question # 28

Investors will hold higher compensation for the _____ investment.

Select correct option:

More risky

Less risky

Fixed return

Less dividend

Question # 29

An increase in the expected inflation shifts the bond demand to the _____.

Select correct option:

Right

Left

No change

All of the given options

Question # 30

You receive a check for \$100 two years from today. The discounted present value of this \$100 is:

Select correct option:

$\$100/(1+i)$

$\$100*(1+i)^2$

$\$100*(1+i)$

$\$100/(1+i)^2$

Question # 31

Which of the following is NOT an example of financial institutions?

Select correct option:

Banks

Securities firms

Stock exchanges

Insurance companies

Question # 32

The bond rating of a security refers to which of the followings?

Select correct option:

The size of the coupon payment relative to the face value

The return a holder is likely to receive

The likelihood the lender/borrower will be repaid by the borrower/issuer

The years until the bond matures

Question # 33

Yield curves show which of the followings?

Select correct option:

The relationship between bond interest rates (yields) and bond prices

The relationship between liquidity and bond interest rates (yields)

The relationship between risk and bond interest rates (yields)

The relationship between time to maturity and bond interest rates (yields)

Question # 34

Which of the following best expresses the proceeds a lender receives from a simple loan?

Select correct option:

$PV(1 + i)$

FV/i

$PV + i$

PV/i

Question # 35

When the price of a bond is above face value:

Select correct option:

The yield to maturity will be above the coupon rate

The yield to maturity is below the coupon rate

The yield to maturity will equal zero

The yield to maturity will equal the coupon rate

Question # 36

What will the yield curve look like if future short-term interest rates are expected to rise sharply?

Select correct option:

It will steeply slope upward

It will be horizontal

It will slightly slope upward

It will slope downward

Question # 37

When a bond becomes more liquid relative to its alternatives, the demand curve for bonds shifts to the:

Select correct option:

Right

Left

No change

None of the given options

Question # 38

Debt instruments is categorized on the basis of which one of the following?

Select correct option:

Loan maturity period

Interest rates

Mode of payment of interest

Amount of the debt taken

Question # 39

Expectation hypothesis focuses on which one of the following?
Select correct option:

Risk premium

Risk free interest rate

Yield to maturity

None of the given options

Reference:

Expectations Hypothesis

The risk-free interest rate can be computed, assuming that there is no uncertainty about the future

Question # 40

What characteristic of money is not included in securities characteristics

Select correct option:

Mean of payment

Unit of account

Store of value

Transfer of risk

Question # 41

Which one of the following is the narrowest definition of money?

Select correct option:

C

M1

M2

M3

Question # 42

Which one of the following is a component of wealth that is held in a readily spendable form?

Select correct option:

Money

Bonds

Stocks

Income

Question # 43

A loan that is used to purchase the real estate is known as:

Select correct option:

Real estate loan

Home mortgages

Fixed payment loan

Home loan

Question # 44

The default premium:

Select correct option:

Is positive for a U.S. Treasury bond

Must always be less than 0 (zero)

Is also known as the risk spread

Is assigned by a bond rating agency

Question # 45

A graph of the term structure with YTM on Y-axis and time to maturity on X-axis is called:

Select correct option:

Demand curve

Supply curve

Yield curve

Leffer curve

Question # 46

Which of the following best describes checks?

Select correct option:

A means of payment

Money

Not a promise of any kind

Not acceptable by the U.S. Government for payment of taxes.

Question # 47

With direct finance we mean which of the following?

Select correct option:

Individuals (or firms) borrow directly from the savers

Individuals (or firms) borrow directly from banks.

Individuals deposit savings directly in banks.

Firms deposit savings directly in banks.

Question # 48

Which of the following best expresses the payment a lender receives for lending their money for four years?

Select correct option:

 $PV(1+i)^4$

$PV/(1+i)^4$

$4PV$

$PV/(1-i)^4$

Question # 49

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

Select correct option:

Higher the tax rate wider the gap between the yield of taxable and tax exempt bond

Taxable bond yield is always greater than tax exempt bond

Higher the tax rate shorter the gap between yield of taxable and tax exempt bond

Lower the tax rate wider the gap between yield of taxable and tax exempt bond

Question # 50

In which of the following bonds we may ignore the default risk?

Select correct option:

Privately issued bonds

Government issued bonds

Bonds issued by Corporate

All of the given options

Question # 51

Which of the following is the least liquid of all?

Select correct option:

Money

Bonds & stocks

Lands & buildings

None of the given options

Question # 52

What is primary cause of inflation?

Select correct option:

Energy crises
Gold reserve shortage
Issue excessive currency
Rising cost of input

Question # 53

The risk premium for an investment:

Select correct option:

Increases with risk

Is a fixed amount added to the risk free return
Is negative for U.S. Treasury Securities
Is negative for risk averse investors

Reference:

Page 35

Question # 54

Which of the following is the measure of likelihood that an event will occur?

Select correct option:

Risk

Probability

Frequency

Outcom

Question # 55

Which of the following is NOT included in the definition of M1?

Select correct option:

Traveler's checks
Demand deposits
Currency
Gold coins issued by treasury

Question # 56

The liquidity premium theory suggests that yield curves should usually be:

Select correct option:

Up-sloping
Inverted
Flat
Up-sloping through year 1, then flat thereafter

Question # 57

If the tax rate is higher than gap between yield on taxable and tax exempt bond?

Select correct option:

Shorter
Wider
No gap
Any thing can be possible

Question # 58

The reason for the government to get involved in the financial system is to:

Select correct option:

Protect investors

Ensure the stability of the financial system
Protect bank customers from monopolistic exploitation

All of the given options

Reference:

Page92

Question # 59

Financial instruments are evolved just as _____.

Select correct option:

Currency

Stock

Bond

Commodity

Question # 60

The longer the time (n) until the payment:

Select correct option:

The lower the present value

The higher the present value because time is valuable

The lower must be the interest rate

Time has no effect on present value

Question # 61

Core principles of Money and Banking include each of the following except?

Select correct option:

People act rationally

Time has value

Information is the basis for decisions
Risk requires compensation

Question # 62

Which of the following would be included in a definition of risk?

Select correct option:

Risk is a not measure of uncertainty

Risk is unavoidable

Risk doesn't have a time horizon

Risk seldom involves some future payoff

Question # 63

The lowest rating for an investment grade bond assigned by Moody's is:

Select correct option:

BBB

ABB

Baa

Aaa

Question # 64

The concept of limited liability says a stockholder of a corporation:

Select correct option:

Is liable for the corporation's liabilities, but nothing more

Cannot receive dividends that exceed their investment

Cannot own more than five percent of any public corporation

Cannot lose more than their investment

Question # 65

Coupon bonds make the annual payments which are called as _____.

Select correct option:

Annual payments

Fixed payments

Coupon payments

Maturity payment

Question # 66

The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

Select correct option:

5.00%

6.25%

7.50%

8.00%

Question # 67

Home loans and car loans are the example of which one of the following?

Select correct option:

Mortgage loans

Pledge

Fixed Payment Loans

Ordinary loan

Question # 68

What is difference between warrant and check?

Select correct option:

Check is cleared from bank but warrant is not cleared by bank

Check is not necessarily pay able on demand but warrant is payable on demand

Warrant is not necessarily pay able on demand but check is payable on demand

None of above

Question # 69

The slope of the yield curve seems to predict the performance of the economy with:

Select correct option:

Usually 3 months lag

Usually two years lag

Usually within few weeks

Usually one year lag

Question # 70

What is true about the relationship between standard deviation and risk?

Select correct option:

Greater the standard deviation greater will be the risk

Greater the standard deviation lower will be the risk

Greater the standard deviation risk remains the same

No relation between them

Question # 71

If YTM equals the coupon rate the price of the bond is _____.

Select correct option:

Greater than its face value

Lower than its face value

Equals to its face value

Insufficient information

Question # 72

The Financial Systems makes it easier to trade because it:

Select correct option:

Facilitate Payments

Channels Funds from Savers to Borrowers

Enables Risk Sharing

All of the given options

Question # 73

Spreading involves:

Select correct option:

Finding assets whose returns are perfectly negatively correlated

Building a portfolio of assets whose returns move together

Investing in bonds and avoiding stocks during bad times

Adding assets to a portfolio that move independently

Question # 74

_____ is the interest rate at which the present value annual revenue equals the cost of the investment.

Select correct option:

Fixed rate of interest

Internal rate of return

Variable rate of interest

Nominal rate of interest

Question # 75

The GDP deflator is calculated as_____.

Select correct option:

$\text{Nominal GDP} / \text{Real GDP} * 100$

$\text{Real GDP} / \text{Nominal GDP}$

$\text{Nominal GDP} - \text{Real GDP}$

$\text{Real GDP} - \text{Nominal GDP}$

Question # 76

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

Select correct option:

Spreading the risk

Standard deviation

Hedging the risk

Variance

Question # 77

A _____ is a promise to make a series of payments on specific future date.

Select correct option:

Stock

Bond

Loan

Cheque

Question # 78

Which one of the following is true for financial intermediaries?

Select correct option:

Channel funds from savers to borrowers

Greatly enhance economic efficiency

Have been an source of many financial innovations

All of the given options

Question # 79

There is no guarantee that a bond issuer will make the promised payments is known as which one of the following?

Select correct option:

Default risk

Inflation risk

Interest rate risk

Systematic risk

Question # 80

If a bond sells at a premium, where price exceeds face value, then we would expect to see:

Select correct option:

Market interest rate the same as the coupon rate

Market interest rates above the coupon rate

Market interest rates below the coupon rate

All of the given options

Question # 81

One of major disadvantage of fiat money is

Select correct option:

Only few resources are needed

It may be theft easily

Normally it is obsolete quickly

Pressure or corrupt government may print excessive money

Question # 82

The price of a coupon bond can best be described as:

Select correct option:

The present value of the face value

The future value of the coupon payments and the face value

The present value of the coupon payments

Both The present value of the face value and of the coupon payments

Question # 83

The Segmented Markets Theory of term structure suggests that:

Select correct option:

Investors have strong preferences for bonds of a particular maturity

Investors have no preference for short-term bonds over long-term bonds, or vice versa

Interest rates on long-term bonds strongly influence the demand for short-term bonds

Bonds of different maturities are perfect substitutes for each other

Question # 84

Which of the following patterns of term structure occur most frequently?

Select correct option:

Ascending yield curve

Descending yield curve

Flat yield curve

Humped yield curve

Question # 85

Economic development measured by

Select correct option:

Real GDP/population

Real GDP/ nominal GDP

Real GDP/Real GNP

None of above

Reference:

Financial Development is measured by the commonly used ratio of broadly defined money to GDP. Economic development is measured by the real GDP per capita.

Question # 86

Sum of all the probabilities should be equal to which one of the following?

Select correct option:

Zero

One

Two

Three

Question # 87

A financial instrument in which a borrower obtains resources from a lender immediately in exchange for a promised set of payments in the future is called as _____.

Select correct option:

Bond

Bank Loan

Home Mortgage

Futures Contract

Question # 88

A brilliant example of risk require compensation

Select correct option:

Taking a safe debt

Insurance policy

A person work in office

None of above

Question # 89

An increase in wealth shifts the demand for bonds to the _____.

Select correct option:

Left

Right

No change

All of the given options

Question # 90

Internal Rate of Return is _____.

Select correct option:

Present value of investment

Future value of its investment +Cost of investment

Cost of investment

Present value of investment + cost of investment

Question # 91

Previously financial markets are located in which of the following?

Select correct option:

Coffee houses or Taverns

Stock exchanges

Bazaar

Coffee houses and Stock exchanges

Question # 92

At which money aggregate definitions relation is stronger with inflation and growth

Select correct option:

M1

M2

M3

None of above

Question # 93

The shape of the yield curve is usually:

Select correct option:

Upward sloping

Downward sloping

Upward sloping for shorter maturities and downward sloping for longer maturities

Flat

Question # 94

When the auto manufacturing industry does poorly due to a recession this is an example of:

Select correct option:

Idiosyncratic risk

Systematic risk

Risk premium

Unique risk

Question # 95

Mr A need 1000000 to buy a car for his personal use he contact with bank that give his loan this would be called

Select correct option:

Direct finance

Indirect finance

Facilitate payment

All of above

Question # 96

Which one of the following is NOT true for the expectation hypothesis?

Select correct option:

Risk free interest rate can be computed

There is uncertainty in the future

Identifying yield of bond today that will be available next year

It focuses on risk free interest rate and the risk premium

Question # 97 <http://vustudents.ning.com>

Mark borrows \$8,000 and then repays \$8,600 to ABC bank. What is the amount of interest in this payment?

Select correct option:

\$600

\$500

\$400

\$100

Question # 98

In the long run, the yield curve tends to be which of the following?

Select correct option:

Upward sloping

Downward sloping

Nearly vertical

Nearly horizontal

Question # 99

Which of the following is NOT a depository financial institution?

Select correct option:

Credit Union

Savings and Loan

Commercial bank

Life Insurance Company

Question # 100

Which of the following best describes the relationship between Bond prices and yields?

Select correct option:

Move together inversely

Bond yields do not change since the coupon is fixed

Move together directly

Are independent of each other

Question # 101

According to the rule of 72 for reasonable rates of return, the time it takes to _____ the money will be $t = 72/i\%$

Select correct option:

Doubles

Triples

halves

$\frac{3}{4}$

Question # 102

Which one of the following agencies assesses the default risk of different issuers?

Select correct option:

Insurance companies

Bond issuing

Credit rating

Recruitment agencies

Question # 103

The risk premium of a bond will:

Select correct option:

Higher for investment-grade bonds than for high-yield bonds

Positive but small if the risk of default is zero

Decrease when the default risk rises

Increase when the risk of default rises

Question # 104

The relationship between the price and the interest rate for a zero coupon bond is best described as:

Select correct option:

Volatile

Stable

Non-existent

Inverse

Question # 105

Which is broadly used as money aggregate?

Select correct option:

M1

M2

M3

None of above

Question # 106

Which characteristic are common both in money and securities

Select correct option:

Transfer of risk, store of value

Unit of account, mean of payment

Mean of payment, transfer of risk

Store of value, mean of payment

Question # 107

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

Select correct option:

Short-term interest rates to rise sharply

Short-term interest rates to stay near their current levels

Short-term interest rates to drop sharply

Short-term interest rates does not change

Question # 108

What is the true relationship that exists between default risk and yield?

Select correct option:

Higher the default risk, higher the yield

Lower the default risk, higher the yield

Higher the default risk yield will remain constant

Lower the default risk yield will remain constant

Question # 109

Which of the following financial instruments NOT used primarily as store of value?

Select correct option:

Options

Stocks

Home mortgage

Bonds

Question # 110

Which of the variable measured in point of time?

Select correct option:

Flow variable

Stock variable

Both flow variable and stock variable

None of above

Question # 111

A business cycle downturn shifts the bond supply to the:

Select correct option:

Right

Left

No change

None of the given options

Quiz Start Time: 01:24 PM Time Left 66
sec(s)

Question # 1 of 15 (Start time: 01:24:19 PM) Total Marks: 1

Which of the following is NOT an example of financial institutions?

Select correct option:

Banks

Securities firms

Stock exchanges

Insurance companies

Quiz Start Time: 01:24 PM Time Left 59
sec(s)

Question # 2 of 15 (Start time: 01:25:00 PM) Total Marks: 1

You receive a check for \$100 two years from today. The discounted present value of this \$100 is:

Select correct option:

$$\$100/(1+i)$$

$$\$100*(1+i)^2$$

$$\$100*(1+i)$$

$$\mathbf{\$100/(1+i)^2}$$

Quiz Start Time: 01:24 PM Time Left 75
sec(s)

Question # 3 of 15 (Start time: 01:25:51 PM) Total Marks: 1

Which one of the following is the procedure of finding out the Present Value (PV)?

Select correct option:

Discounting

Compounding

Time value of money

Bond pricing

Quiz Start Time: 01:24 PM Time Left 63
sec(s)

Question # 4 of 15 (Start time: 01:26:17 PM) Total Marks: 1

Which of the following represents the fisher's equation?

Select correct option:

Nominal interest rate = real interest rate + inflation

Nominal interest rate + inflation = real interest rate

Nominal interest rate = real interest rate - inflation

Nominal interest rate = real interest rate / inflation

Quiz Start Time: 01:24 PM Time Left 54
sec(s)

Question # 5 of 15 (Start time: 01:26:55 PM) Total Marks: 1

Sum of all the probabilities should be equal to which one of the following?

Select correct option:

Zero

One

Two

Three

Quiz Start Time: 01:24 PM Time Left 75
sec(s)

Question # 6 of 15 (Start time: 01:27:42 PM) Total Marks: 1

Coupon bonds make the annual payments which are called as
_____.

Select correct option:

Annual payments

Fixed payments

Coupon payments

Maturity payment

Quiz Start Time: 01:24 PM Time Left 76
sec(s)

Question # 7 of 15 (Start time: 01:28:08 PM) Total Marks: 1

A loan that is used to purchase the real estate is known as:

Select correct option:

Real estate loan

Home mortgages

Fixed payment loan

Home loan

Quiz Start Time: 01:24 PM Time Left 35
sec(s)

Question # 8 of 15 (Start time: 01:28:30 PM) Total Marks: 1

Time affects the value of which of the following?

Select correct option:

Financial Instruments

Financial Markets

Financial Institutions

Central Banks

Quiz Start Time: 01:24 PM Time Left 74
sec(s)

Question # 9 of 15 (Start time: 01:29:37 PM) Total Marks: 1

Which one of the following is the strategy of reducing overall risk by making two investments which are totally independent of each other?

Select correct option:

Spreading the risk

Standard deviation

Hedging the risk

Variance

Quiz Start Time: 01:24 PM Time Left 28
sec(s)

Question # 10 of 15 (Start time: 01:30:09 PM) Total Marks: 1

Which is broadly used as money aggregate?

Select correct option:

M1

M2

M3

None of Above

Quiz Start Time: 01:24 PM Time Left 47

sec(s)

Question # 11 of 15 (Start time: 01:31:25 PM) Total Marks: 1

Which characteristic are common both in money and securities

Select correct option:

Transfer of risk, store of value

Unit of account, mean of payment

Mean of payment, transfer of risk

Store of value, mean of payment

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Quiz Start Time: 01:24 PM Time Left 76
sec(s)

Question # 12 of 15 (Start time: 01:32:16 PM) Total Marks: 1

What is true about the relationship between standard deviation and risk?

Select correct option:

Greater the standard deviation greater will be the risk

Greater the standard deviation lower will be the risk

Greater the standard deviation risk remains the same

No relation between them

Quiz Start Time: 01:24 PM Time Left 32
sec(s)

Question # 13 of 15 (Start time: 01:32:38 PM) Total Marks: 1

Which of the following would be considered characteristic of money?

Select correct option:

It is store of value

It pays a higher return than most assets

It is in fixed supply

It is legal tender everywhere in the world

Quiz Start Time: 01:24 PM Time Left 10
sec(s)

Question # 14 of 15 (Start time: 01:33:44 PM) Total Marks: 1

If a bond sells at a premium, where price exceeds face value, then we would expect to see:

Select correct option:

Market interest rate the same as the coupon rate

Market interest rates above the coupon rate

Market interest rates below the coupon rate

All of the given options

Quiz Start Time: 01:24 PM Time Left 75
sec(s)

Question # 15 of 15 (Start time: 01:35:09 PM) Total Marks: 1

Spreading involves:

Select correct option:

Finding assets whose returns are perfectly negatively correlated

Building a portfolio of assets whose returns move together

Investing in bonds and avoiding stocks during bad times

Adding assets to a portfolio that move independently

Quiz Start Time: 01:38 PM Time Left 37
sec(s)

Question # 1 of 15 (Start time: 01:38:42 PM) Total Marks: 1

Which one of the following is true for financial intermediaries?

Select correct option:

Channel funds from savers to borrowers

Greatly enhance economic efficiency

Have been an source of many financial innovations

All of the given options

Quiz Start Time: 01:38 PM Time Left 15
sec(s)

Question # 2 of 15 (Start time: 01:39:43 PM) Total Marks: 1

Investors will hold higher compensation for the _____
investment.

Select correct option:

More risky

Less risky

Fixed return

Less dividend

Quiz Start Time: 01:38 PM Time Left 74
sec(s)

Question # 3 of 15 (Start time: 01:41:01 PM) Total Marks: 1

Which of the following is the least liquid of all?

Select correct option:

Money

Bonds & stocks

Lands & buildings

None of the given options

Quiz Start Time: 01:38 PM Time Left 32
sec(s)

Quiz Start Time: 01:38 PM Time Left 9
sec(s)

Question # 5 of 15 (Start time: 01:42:27 PM) Total Marks: 1

The price of a coupon bond can best be described as:

Select correct option:

The present value of the face value

The future value of the coupon payments and the face value

The present value of the coupon payments

Both The present value of the face value and of the coupon payments

Quiz Start Time: 01:38 PM Time Left 22
sec(s)

Question # 7 of 15 (Start time: 01:44:53 PM) Total Marks: 1

The money aggregate M2 includes each of the following EXCEPT:

Select correct option:

Small denomination time deposits.

Retail Money Market Mutual fund shares

U.S. Treasury bills

M1

Quiz Start Time: 01:38 PM Time Left 48
sec(s)

Question # 8 of 15 (Start time: 01:46:08 PM) Total Marks: 1

Mr A need 1000000 to buy a car for his personal use he contact with bank that give his loan this would be called

Select correct option:

Direct finance

Indirect finance

Facilitate payment

All of above

Quiz Start Time: 01:38 PM Time Left 55
sec(s)

Question # 9 of 15 (Start time: 01:46:59 PM) Total Marks: 1

What characteristic of money is not included in securities
characteristics

Select correct option:

Mean of payment

Unit of account

Store of value

Transfer of risk

Quiz Start Time: 01:38 PM Time Left 50

sec(s)

Question # 10 of 15 (Start time: 01:47:38 PM) Total Marks: 1

Consumer Price Index (CPI) measures the:

Select correct option:

Changes in the quantity

Changes in the prices

Changes in the cost

Changes in the profit

Quiz Start Time: 01:38 PM Time Left 59
sec(s)

Question # 11 of 15 (Start time: 01:48:26 PM) Total Marks: 1

Which of the following best represent the true relationships between interest rates and bond prices?

Select correct option:

Move in the same direction

Move in opposite direction

Sometimes move in the same direction, some times in opposite direction

Have no relationship with each other (i.e. they are independent)

Quiz Start Time: 01:38 PM Time Left 41
sec(s)

Question # 12 of 15 (Start time: 01:49:02 PM) Total Marks: 1

One of major disadvantage of fiat money is

Select correct option:

Only few resources are needed

It may be theft easily

Normally it is obsolete quickly

Pressure or corrupt government may print excessive money

Quiz Start Time: 01:38 PM Time Left 76
sec(s)

Question # 13 of 15 (Start time: 01:49:56 PM) Total Marks: 1

If YTM equals the coupon rate the price of the bond is _____.

Select correct option:

Greater than its face value

Lower than its face value

Equals to its face value

Insufficient information

Quiz Start Time: 01:38 PM Time Left 69
sec(s)

Question # 14 of 15 (Start time: 01:50:19 PM) Total Marks: 1

_____ is the value today of a payment that is promised to be made in the future.

Select correct option:

Future value

Present value

Agreed value

None of the given options

Quiz Start Time: 01:38 PM Time Left 38
sec(s)

Question # 15 of 15 (Start time: 01:51:24 PM) Total Marks: 1

Which of the variable measured in point of time?

Select correct option:

Flow variable

Stock variable

Both flow variable and stock variable

None of above

The risk premium for an investment:

Select correct option:

Increases with risk

Is a fixed amount added to the risk free return

Is negative for U.S. Treasury Securities

Is negative for risk averse investors

Which of the following institution take direct deposit from customer and give loan to customer directly?

Select correct option:

Zarai Tarkaytee Bank LTD

Soneri Bank

Khushali Bank

Credit union

The interest rate that is involved in _____ calculation is referred to as discount rate

Select correct option:

Present value

Future value

Intrinsic value

Discount value

The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

Select correct option:

5.00%

6.25%

7.50%

8.00%

Which of the variable measured in point of time?

Select correct option:

Flow variable

Stock variable

Both flow variable and stock variable

None of above

Which of the following is NOT a depository financial institution?

Select correct option:

Credit Union

Savings and Loan

Commercial bank

Life Insurance Company

When the auto manufacturing industry does poorly due to a recession this is an example of:

Select correct option:

Idiosyncratic risk

Systematic risk

Risk premium

Unique risk

At which money aggregate definitions relation is stronger with inflation and growth

Select correct option:

M1

M2

M3

None of above

Which one of the following is the narrowest definition of money?

Select correct option:

C

M1

M2

M3

The relationship between the price and the interest rate for a zero coupon bond is best described as:

Select correct option:

Volatile

Stable

Non-existent

Inverse

Wider the range of outcome wider will be the _____.

Select correct option:

Risk

Profit

Probability

Lose

Investors will hold higher compensation for the _____ investment.

Select correct option:

More risky

Less risky

Fixed return

Less dividend

A _____ is a promise to make a series of payments on specific future date.

Select correct option:

Stock

Bond

Loan

Cheque

Previously financial markets are located in which of the following?

Select correct option:

Coffee houses or Taverns

Stock exchanges

Bazaar

Coffee houses and Stock exchanges

Diversification is the principle of:

Select correct option:

Holding more than one risk at a time

Reducing the risks we carry to just two

Creating risk to increase returns

Eliminating investments from our portfolio that have idiosyncratic risk

Which of the following is NOT a depository financial institution?

Select correct option:

Credit Union

Savings and Loan

Commercial bank

Life Insurance Company

Which of the following best describes checks?

Select correct option:

A means of payment

Money

Not a promise of any kind

Not acceptable by the U.S. Government for payment of taxes.

Which of the following financial instruments used primarily as store of value?

Select correct option:

Options

Stocks

Home mortgage

Bonds

Time affects the value of which of the following?

Select correct option:

Financial Instruments

Financial Markets

Financial Institutions

Central Banks

Which one of the following is the narrowest definition of money?

Select correct option:

C

M1

M2

M3

S

What is true about the relationship between standard deviation and risk?

Select correct option:

Greater the standard deviation greater will be the risk

Greater the standard deviation lower will be the risk

Greater the standard deviation risk remains the same

No relation between them

The reason for the government to get involved in the financial system is to:

Select correct option:

Protect investors

Ensure the stability of the financial system

Protect bank customers from monopolistic exploitation

All of the given options

What will be the result of the difference of real and nominal interest rate?

Select correct option:

The cost of borrowing

[The effect of inflation](#)

The price of bonds

The return of bonds

Total Marks: 1

_____ include savings and time deposits and account for nearly two-thirds of all commercial bank liabilities.

Select correct option:

[Non transactions Deposits](#)

Borrowings

Checkable Deposits

Discount loans

Which of the following is the true about bank statement?

Select correct option:

[Total Bank Assets = Total Bank Liabilities + Bank Capital](#)

Total Bank Liabilities = Bank Capital

Total Bank Assets + Total Bank Liabilities = Bank Capital

Total Bank Assets = Total Bank Liabilities - Bank Capital

Which of the following is the least liquid of all?

Select correct option:

Money

Bonds & stocks

Lands & buildings

None of the given options

A brilliant example of risk require compensation

Select correct option:

- Taking a safe debt
- Insurance policy
- A person work in office
- None of above

According to the rule of 72 for reasonable rates of return, the time it takes to _____ the money will be $t = 72/i\%$

Select correct option:

- Doubles
- Triples
- halves
- 3/4

Debt instruments is categorized on the basis of which one of the following?

Select correct option:

Loan maturity period

Interest rates

Mode of payment of interest

Amount of the debt taken

Which of the following is the measure of likelihood that an event will occur?

Select correct option:

Risk

Probability

Frequency

Outcom

Which of the following would be included in a definition of risk?

Select correct option:

Risk is a not measure of uncertainty

Risk is unavoidable

Risk doesn't have a time horizon

Risk seldom involves some future payoff

Which one of the following is a component of wealth that is held in a readily spendable form?

Select correct option:

Money

Bonds

Stocks

Income

The reason for the government to get involved in the financial system is to:

Select correct option:

Protect investors

Ensure the stability of the financial system

Protect bank customers from monopolistic exploitation

All of the given options

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What is difference between warrant and check?

Select correct option:

Check is cleared from bank but warrant is not cleared by bank

Check is not necessarily pay able on demand but warrant is payable on demand

Warrant is not necessarily pay able on demand but check is payable on demand

None of above

Which of the following expresses 6.5%?

Select correct option:

0.0065

6.50

0.650

0.0650

Question # 4 of 15 (Start time: 12:12:24 PM) Total Marks: 1

Internal Rate of Return is _____.

Select correct option:

Present value of investment

Future value of its investment +Cost of investment

Cost of investment

Present value of investment + cost of investment

You receive a check for \$100 two years from today. The discounted present value of this \$100 is:

Select correct option:

$$\$100/(1+i)$$

$$\$100*(1+i)^2$$

$$\$100*(1+i)$$

$$\$100/(1+i)^2$$

Question # 6 of 15 (Start time: 12:15:07 PM) Total Marks: 1

What will be the effect on the present value if we double the future value of the payment?

Select correct option:

It will decrease the value by one-half

It will increase the value by one-half

It will equally increase the value i.e. doubles the value

It will have no effect on the value

The risk premium for an investment:

Select correct option:

Increases with risk

Is a fixed amount added to the risk free return

Is negative for U.S. Treasury Securities

Is negative for risk averse investors

Saving occurs normally in

Select correct option:

Early age

Middle age

Old age

None of above

The price of a coupon bond can best be described as:

Select correct option:

The present value of the face value

The future value of the coupon payments and the face value

The present value of the coupon payments

Both The present value of the face value and of the coupon payments

Government bonds called Where as corporate bonds are called

Select correct option:

Zero coupon bond, coupon bond

Risky bond. Risk free bond

T bill, corporate bond

Console bond, junk bonds

Which of the following institution take direct deposit from customer and give loan to customer directly?

Select correct option:

Zarai Tarkaytee Bank LTD

Soneri Bank

Khushali Bank

Credit union

Which is broadly used as money aggregate?

Select correct option:

M1

M2

M3

None of Above

Question # 13 of 15 (Start time: 12:47:15 PM) Total Marks: 1

With direct finance we mean which of the following?

Select correct option:

Individuals (or firms) borrow directly from the savers

Individuals (or firms) borrow directly from banks.

Individuals deposit savings directly in banks.

Firms deposit savings directly in banks

Taking deposits from savers in one country and providing them to investors in another country

Question # 14 of 15 (Start time: 12:48:35 PM) Total Marks: 1

The longer the time (n) until the payment:

Select correct option:

The lower the present value

The higher the present value because time is valuable

The lower must be the interest rate

Time has no effect on present value

The Financial Systems makes it easier to trade because it:

Select correct option:

Facilitate Payments

Channels Funds from Savers to Borrowers

Enables Risk Sharing

All of the given options

The money aggregate M2 includes each of the following EXCEPT:

Select correct option:

Small denomination time deposits.

Retail Money Market Mutual fund shares

U.S. Treasury bills

M1

Previously financial markets are located in which of the following?

Select correct option:

Coffee houses or Taverns

Stock exchanges

Bazaar

Coffee houses and Stock exchanges

----- example of channel fund from saver to borrower.

Select correct option:

Bank

Mutual fund

Finance companies

All of above

A _____ is a promise to make a series of payments on specific future date.

Select correct option:

Stock

Bond

Loan

Cheque

A bond is a promise to make a series of payments on specific future date

The return on the bond is equal to which of the following?

Select correct option:

Coupon rate + rate of capital gains

Current yield + rate of capital gains

Coupon rate - rate of capital gains

Current yield - rate of capital gains

Coupon bonds make the annual payments which are called as _____.

Select correct option:

<http://vustudents.ning.com>

Annual payments

Fixed payments

Coupon payments

Maturity payment

A financial instrument in which a borrower obtains resources from a lender immediately in exchange for a promised set of payments in the future is called as _____.

Select correct option:

Bond

Bank Loan

Home Mortgage

Futures Contract

Bonds without maturity dates are which of the followings?

Select correct option:

Zero coupon bonds

Coupon securities

Consols

Preferred Bonds

We need _____ to carry out day to day transactions.

Select correct option:

Money

Bonds

Stocks

Loans

Home loans and car loans are the example of which one of the following?

Select correct option:

Mortgage loans

Pledge

Fixed Payment Loans

Ordinary loan

Home mortgages and car loans are examples of fixed payment loans pg 43

A risk-averse investor will:

Select correct option:

Always prefer an investment with a lower expected return

Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty

Always require a certain return

Always focus exclusively on the expected return

The GDP deflator is calculated as_____.

Select correct option:

Nominal GDP/Real GDP *100

Real GDP/Nominal GDP

Nominal GDP – Real GDP

Real GDP – Nominal GDP

GDP Deflator = (Nominal GDP / Real GDP) × 100

Spreading involves:

Select correct option:

Finding assets whose returns are perfectly negatively correlated

Building a portfolio of assets whose returns move together

Investing in bonds and avoiding stocks during bad times

Adding assets to a portfolio that move independently

Which of the following represents the fisher's equation?

Select correct option:

Nominal interest rate = real interest rate + inflation

Nominal interest rate + inflation = real interest rate

Nominal interest rate = real interest rate - inflation

Nominal interest rate = real interest rate / inflation

A zero coupon bond:

Select correct option:

Does not pay any coupon payments because the issuer is in default

Pays coupons only once a year versus the usual twice a year

Promises a single future payment

Pays coupons only if the bond price is below face value

Zero-coupon bonds

§ Promise a single future payment, such as a Treasury bill.

Debt instruments is categorized on the basis of which one of the following?

Select correct option:

Loan maturity period

Interest rates

Mode of payment of interest

Amount of the debt taken

Which one of the following is the strategy of reducing overall risk by making two investments which are totally independent of each other?

Select correct option:

Spreading the risk

Standard deviation

Hedging the risk

Variance

Question # 6 of 15 (Start time: 01:10:07 PM) Total Marks: 1

Which of the following best expresses the proceeds a lender receives from a simple loan?

Select correct option:

$PV(1 + i)$

FV/i

$PV + i$

PV/i

GDP deflator is called

Select correct option:

Retailer price index

Consumer price index

Producer price index

None of above

The GDP deflator, also called the implicit price deflator for GDP

The relationship between the price and the interest rate for a zero coupon bond is best described as:

Select correct option:

Volatile

Stable

Non-existent

Inverse

The value of a bond varies inversely with the interest rate used to discount the promised payments

Which of the following best represent the true relationships between interest rates and bond prices?

Select correct option:

Move in the same direction

Move in opposite direction

Sometimes move in the same direction, some times in opposite direction

Have no relationship with each other (i.e. they are independent)

the price of a bond and the interest rate move in opposite directions

What is primary cause of inflation?

Select correct option:

Energy crises

Gold reserve shortage

Issue excessive currency

Rising cost of input

The primary cause of inflation is the issuance of too much money

Which of the following would be included in a definition of risk?

Select correct option:

Risk is a not measure of uncertainty

Risk is unavoidable

Risk doesn't have a time horizon

Risk seldom involves some future payoff

Question # 1 of 20

Bonds without maturity dates are which of the followings?

Select correct option:

Zero coupon bonds

Coupon securities

Consols

Preferred Bonds

Question # 4 of 20 (Start time: 08:02:08 PM)

Total Marks: 1

Which of the following represents the fisher's equation?

Select correct option:

Nominal interest rate = real interest rate + inflation

Nominal interest rate + inflation = real interest rate

Nominal interest rate = real interest rate - inflation

Nominal interest rate = real interest rate / inflation

Question # 5 of 20 (Start time: 08:03:08 PM)

Total Marks: 1

The return on holding a bond till its maturity is called:

Select correct option:

Coupon rate

Yield to maturity

Current yield

Internal rate of return

Question # 6 of 20 (Start time: 08:03:27 PM)

Total Marks: 1

Wider the range of outcome wider will be the _____.

Select correct option:

Risk

Profit

Probability

Lose

Question # 7 of 20 (Start time: 08:04:42 PM)

Total Marks: 1

The interest rate that is involved in _____ calculation is referred to as discount rate

Select correct option:

Present value

Future value

Intrinsic value

Discount value

Question # 8 of 20 (Start time: 08:06:05 PM)

Total Marks: 1

Bonds that are issued by Government are called _____.

Select correct option:

Government bond

Treasury bond

Corporate bond

Callable Bonds

Question # 13 of 20 (Start time: 08:13:26 PM)

Total Marks: 1

If a bond sells at a premium, where price exceeds face value, then we would expect to see:

Select correct option:

Market interest rate the same as the coupon rate

Market interest rates above the coupon rate

Market interest rates below the coupon rate

All of the given options

Question # 14 of 20 (Start time: 08:14:49 PM)

Total Marks: 1

With direct finance we mean which of the following?

Select correct option:

Individuals (or firms) borrow directly from the savers

Individuals (or firms) borrow directly from banks.

Individuals deposit savings directly in banks.

Firms deposit savings directly in banks.

Question # 15 of 20 (Start time: 08:16:14 PM)

Total Marks: 1

Investors will hold higher compensation for the _____ investment.

Select correct option:

More risky

Less risky

Fixed return

Less dividend

Question # 16 of 20 (Start time: 08:17:16 PM)

Total Marks: 1

Which of the following best expresses the proceeds a lender receives from a simple loan?

Select correct option:

PV(1 + i)

FV/i

PV + i

PV/i

Question # 17 of 20 (Start time: 08:18:11 PM)

Total Marks: 1

A financial instrument in which a borrower obtains resources from a lender immediately in exchange for a promised set of payments in the future is called as _____.

Select correct option:

Bond

Bank Loan

Home Mortgage

Futures Contract

Question # 18 of 20 (Start time: 08:19:18 PM)

Total Marks: 1

According to the rule of 72 for reasonable rates of return, the time it takes to _____ the money will be $t = 72/i\%$

Select correct option:

Doubles

Triples

halves

3/4

Question # 20 of 20 (Start time: 08:21:06 PM)

Total Marks: 1

A loan that is used to purchase the real estate is known as:

Select correct option:

Real estate loan

Home mortgage

Fixed payment loan

Home loan

Question # 2 of 20

When a bond becomes more liquid relative to its alternatives, the demand curve for bonds shifts to the:

Select correct option:

Right

Left

No change

None of the given options

Liquidity of bonds relative to alternatives

§ When a bond becomes more liquid relative to alternatives, the demand curve shifts to the right

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Question # 4 of 20

Consumer Price Index (CPI) measures the:

Select correct option:

Changes in the quantity

Changes in the prices

Changes in the cost

Changes in the profit

Question # 5 of 20

A risk- averse investor will:

Select correct option:

Always prefer an investment with a lower expected return

Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty

Always require a certain return

Always focus exclusively on the expected return

Question # 9 of 20

Total Marks: 1

Which of the following best represent the true relationships between interest rates and bond prices?

Select correct option:

Move in the same direction

Move in opposite direction

Sometimes move in the same direction, some times in opposite direction

Have no relationship with each other (i.e. they are independent)

Question # 10 of 20

Total Marks: 1

Which one of the following is a component of wealth that is held in a readily spendable form?

Select correct option:

Money

Bonds

Stocks

Income

Question # 11 of 20

Total Marks: 1

The return on the bond is equal to which of the following?

Select correct option:

Coupon rate + rate of capital gains

Current yield + rate of capital gains

Coupon rate - rate of capital gains

Current yield - rate of capital gains

Question # 13 of 20 (Start time: 08:41:14 PM)

Time affects the value of which of the following?

Select correct option:

Financial Instruments

Financial Markets

Financial Institutions

Central Banks

Question # 14 of 20

Total Marks: 1

Which of the following statement is true about the relation ship between bond ,coupon payment and interest?

Select correct option:

Coupon payments fall, the interest rate falls, and Bond price will rise

Coupon payments rises, the interest rate falls, and Bond price will rise

Coupon payments fall, the interest rate falls, and Bond price will fall

Coupon payments rise, the interest rate falls, and Bond price will fall

Question # 15 of 20

Total Marks: 1

The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

Select correct option:

5.00%

6.25%

7.50%

8.00%

solution = coupon payment/price (so coupon payment 5%of 10,000 = 500)
= $500/8000 = .0625 * 100 = 6.25\%$

Question # 19 of 20

Total Marks: 1

There is no guarantee that a bond issuer will make the promised payments is known as which one of the following?

Select correct option:

Default risk

Inflation risk

Interest rate risk

Systematic risk

Question # 20 of 20

Total Marks: 1

What will be the result of the difference of real and nominal interest rate?

Select correct option:

The cost of borrowing

The effect of inflation

The price of bonds

The return of bonds

Question # 1 of 20

The Financial Systems makes it easier to trade because it:

Select correct option: Facilitate Payments

Channels Funds from Savers to Borrowers

Enables Risk Sharing

All of the given options

Question # 2 of 20

The process of financial intermediation:

Select correct option:

Creates a net cost to an economy but is unavoidable

Is used primarily in underdeveloped countries

Is always used when a borrower needs to obtain funds

Increases the economy's ability to produce

Question # 3 of 20

What is true relationship between return and risk?

Select correct option:

Lower the risk greater the return

Greater the risk greater the return

Greater the risk the return will remain constant

Question # 4 of 20

Financial instruments are evolved just as _____.

Select correct option:

Currency

Stock

Bond

Commodity

Question # 5 of 20

Beside default risk which one if the following factor affects the return on bond?

Select correct option:

Taxes

Monetary policy

Junk bonds

Debt

The second important factor that affects the return on a bond is taxes

Question # 7 of 20 (Start time: 06:31:33 PM) Total Marks: 1

Which of the following is the measure of likelihood that an event will occur?

Select correct option:

Risk

Probability

Frequency

Question # 8 of 20

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

Select correct option:

Short-term interest rates to rise sharply

Short-term interest rates to stay near their current levels

Short-term interest rates to drop sharply

Short-term interest rates does not change

Question # 9 of 20 Home loans and car loans are the example of which one of the following?

Select correct option:

Mortgage loans

Pledge

Fixed Payment Loans

Fixed Payment Loans

They promise a fixed number of equal payments at regular intervals

Home mortgages and car loans are examples of fixed payment loans

Question # 10 of 20

Which one of the following is the procedure of finding out the Present Value (PV)?

Select correct option:

Discounting

Compounding

Time value of money

Bond pricing

Question # 12 of 20

Considering the Liquidity Premium Theory, if investors expect short term interest rates to decrease:

Select correct option:

The yield curve must have a positive slope

The yield curve must be inverted

The yield curve could be flat

The slope of the yield curve should actually increase

Question # 14 of 20

Most of the people among us are _____.

Select correct option:

Risk lovers

Risk enhancers

Risk averse

Risk tolerating

Question # 15 of 20

A risk-averse investor will:

Select correct option:

Always prefer an investment with a lower expected return

Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty

Always require a certain return

Always focus exclusively on the expected return

Question # 16 of 20

The liquidity premium theory suggests that yield curves should usually be:

Select correct option:

Up-sloping

Inverted

Flat

Up-sloping through year 1, then flat thereafter

Wider the range of outcome wider will be the _____.

Select correct option:

Risk

Profit

Probability

Measuring Risk

Most of us have an intuitive sense for risk and its measurement;

The wider the range of outcomes the greater the risk

The return on holding a bond till its maturity is called:

Coupon rate

Yield to maturity

Current yield

Fixed return

Question # 20 of 20

If information in a financial market is asymmetric, this means:

Select correct option:

Borrowers and lenders have perfect information

Borrowers would have more information than lenders

Borrowers and lenders have the same information

Lenders lack any information

According to the rule of 72 for reasonable rates of return, the time it takes to _____ the money will be $t = 72/i\%$

Select correct option:

Doubles

Triples

Halves

3/4

Stock market bubbles can lead to:

Select correct option:

An inefficient allocation of resources

Stock market crashes

Patterns of volatile returns from the stock market

All of the given options

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

Select correct option:

Higher the tax rate wider the gap between the yield of taxable and tax exempt bond

Taxable bond yield is always greater than tax exempt bond

Higher the tax rate shorter the gap between yield of taxable and tax exempt bond

Lower the tax rate wider the gap between yield of taxable and tax exempt bond change

The Dividend-Discount Model of stock valuation:

Select correct option:

Takes the annual dividend, adds it to the expected future selling price and divides by the number of years to get the current price

Takes the net present value of expected dividends and add it to the future sale price of the stock

Takes the net present value of the expected future price of the stock and add the annual dividend

Is an application of the net present value formula

In which of the following bonds we may ignore the default risk?

Select correct option:

Privately issued bonds

Government issued bonds

Bonds issued by Corporate

All of the given options

The slope of the yield curve seems to predict the performance of the economy with: <http://vustudents.ning.com>

Select correct option:

Usually 3 months lag

Usually two years lag

Usually within few weeks

Usually one year lag

The GDP deflator is calculated as_____.

Select correct option:

Nominal GDP/Real GDP *100

Real GDP/Nominal GDP

Nominal GDP – Real GDP

Real GDP – Nominal GDP

What is true about the relationship between standard deviation and risk?

Select correct option: <http://vustudents.ning.com>

Greater the standard deviation greater will be the risk

Greater the standard deviation lower will be the risk

Greater the standard deviation risk remains the same

No relation between them

The concept of limited liability says a stockholder of a corporation:

Select correct option:

Is liable for the corporation's liabilities, but nothing more

Cannot receive dividends that exceed their investment

Cannot own more than five percent of any public corporation

Cannot lose more than their investment

Which of the following best describes the relationship between Bond prices and yields?

Select correct option:

Move together inversely

Bond yields do not change since the coupon is fixed

Move together directly

Are independent of each other

Which of the following best expresses the payment a lender receives for lending their money for four years?

Select correct option:

$PV(1+i)^4$

$PV/(1+i)^4$

$4PV$

$PV/(1-i)^4$

If YTM is greater than the coupon rate the price of the bond is _____.

Select correct option:

Greater than its face value

Lower than its face value

Equals to its face value

All of the given options

Bond Price < Face Value:

Coupon Rate < Current Yield < Yield to Maturity

Question # 1

The _____ are an assessment of the creditworthiness of the corporate issuer.

Select correct option:

Bond yield

Bond price

Bond risk

Bond ratings

Bond price

Question # 2

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

Select correct option:

Because only interest income they receive from bond is taxable

Because principal amount and interest income they receive from bond is taxable

Because bond holders are taxpayers

Because all bond is sold with a condition that tax will be deducted from its return

The second important factor that affects the return on a bond is taxes

Bondholders must pay income tax on the interest income they receive from privately issued

Question # 3

The relationship between the price and the interest rate for a zero coupon bond is best described as:

Select correct option:

Volatile

Stable

Non-existent

Inverse

Question # 4

When stock prices reflect fundamental values:

Select correct option:

All investors will experience capital gains

All companies will have an easier task of obtaining financing for investment projects

The allocation of resources will be more efficient

The overall level of the stock market should move higher continuously

Question # 5

Coupon bonds make the annual payments which are called as _____.

Select correct option:

Annual payments
Fixed payments
Coupon payments
Maturity payment

Question # 6

If information in a financial market is asymmetric, this means:
Select correct option:

Borrowers and lenders have perfect information
Borrowers would have more information than lenders
Borrowers and lenders have the same information
Lenders lack any information

Question # 7

If YTM equals the coupon rate the price of the bond is _____.
Select correct option:

Greater than its face value
Lower than its face value
Equals to its face value
Insufficient information

Question # 8

The Financial Systems makes it easier to trade because it:
Select correct option:

Facilitate Payments
Channels Funds from Savers to Borrowers
Enables Risk Sharing
All of the given options

Question # 9 of

Debt instruments is categorized on the basis of which one of the following?
Select correct option:

Loan maturity period

Interest rates

Mode of payment of interest

Amount of the debt taken

Question # 10

The return on holding a bond till its maturity is called:
Select correct option:

Coupon rate

Yield to maturity

Current yield

Internal rate of return

Question # 11

Which of the following are used to monitor and stabilize the economy?
Select correct option:

Stock exchanges

Commercial Banks

Central Banks

Financial institutions

Question # 12

Previously financial markets are located in which of the following?
Select correct option:

Coffee houses or Taverns

Stock exchanges

Bazaar

Coffee houses and Stock exchanges

Financial Markets

To buy and sell financial instruments quickly and cheaply

Evolved from coffeehouses to trading places (Stock exchanges) to electronic networks

Transactions are much more cheaper now

Markets offer a broader array of financial instruments than were available even 50 years ago

Question # 13

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

Select correct option:

Free-riding

Moral hazard

Adverse selection

The Lemons market

Question # 14

Which one of the following is the procedure of finding out the Present Value (PV)?

Select correct option:

Discounting

Compounding

Time value of money

Bond pricing

Question # 15

_____ are organized to eliminate the need of costly information gathering.

Select correct option:

Central bank

Commercial banks

Stock exchanges

Insurance companies

Question # 16

With direct finance we mean which of the following?

Select correct option:

Individuals (or firms) borrow directly from the savers

Individuals (or firms) borrow directly from banks.

Individuals deposit savings directly in banks.

Firms deposit savings directly in banks.

Question # 17

Yield curves show which of the followings?

Select correct option:

The relationship between bond interest rates (yields) and bond prices

The relationship between liquidity and bond interest rates (yields)

The relationship between risk and bond interest rates (yields)

The relationship between time to maturity and bond interest rates (yields)

Question # 18

In a financial market where information is symmetric:

Select correct option:

The same information would be known by both parties in a transaction

One party to a transaction knows information the other party does not

The ability to obtain information is available to only one party

All of the given options

Question # 19

Other things remaining equal, the liquidity premium theory is based upon the idea that _____.

Select correct option:

Investors prefer long-term bonds

Investors prefer short-term bonds

Investors are indifferent between short-term and long-term bonds

Investors prefer intermediate-term bonds

Question # 20

Spreading involves:

Select correct option:

Finding assets whose returns are perfectly negatively correlated

Building a portfolio of assets whose returns move together

Investing in bonds and avoiding stocks during bad times

Adding assets to a portfolio that move independently

Question # 1 of 20 (Start time: 05:44:09 PM) Total Marks: 1

_____ is the strategy of reducing overall risk by making two investments with opposing risks.

Select correct option:

Spreading the risk

Standard deviation

Hedging the risk

Variance

Question # 2 of 20 (Start time: 05:44:45 PM) Total Marks: 1

The lowest rating for an investment grade bond assigned by Moody's is:

Select correct option:

BBB

ABB

Baa

Aaa

Which one of the following is the narrowest definition of money?

Select correct option:

C

M1

M2

M3

Question # 4 of 20 (Start time: 05:46:15 PM) Total Marks: 1

The price of a coupon bond can best be described as:

Select correct option:

The present value of the face value

The future value of the coupon payments and the face value

The present value of the coupon payments

Both The present value of the face value and of the coupon payments

Question # 5 of 20 (Start time: 05:46:53 PM) Total Marks: 1

We need _____ to carry out day to day transactions.

Select correct option:

Money

Bonds

Stocks

Loans

Question # 6 of 20 (Start time: 05:47:16 PM) Total Marks: 1

The process of financial intermediation:

Select correct option:

Creates a net cost to an economy but is unavoidable

Is used primarily in underdeveloped countries

Is always used when a borrower needs to obtain funds

Increases the economy's ability to produce

Question # 7 of 20 (Start time: 05:47:51 PM) Total Marks: 1

Considering the Liquidity Premium Theory, if investors expect short term interest rates to decrease:

Select correct option:

The yield curve must have a positive slope

The yield curve must be inverted

The yield curve could be flat

The slope of the yield curve should actually increase

Question # 8 of 20 (Start time: 05:48:41 PM) Total Marks: 1

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

Select correct option:

Higher the tax rate wider the gap between the yield of taxable and tax exempt bond

Taxable bond yield is always greater than tax exempt bond

Higher the tax rate shorter the gap between yield of taxable and tax exempt bond

Lower the tax rate wider the gap between yield of taxable and tax exempt bond

Question # 9 of 20 (Start time: 05:49:13 PM) Total Marks: 1

Which of the following expresses 6.5%?

Select correct option:

0.0065

6.50

0.650

0.0650

Question # 10 of 20 (Start time: 05:50:19 PM) Total Marks: 1

What will be the result of the difference of real and nominal interest rate?

Select correct option:

The cost of borrowing

The effect of inflation

The price of bonds

The return of bonds

Question # 11 of 20 (Start time: 05:50:40 PM) Total Marks: 1

Other things remaining equal, the liquidity premium theory is based upon the idea that _____.

Select correct option:

Investors prefer long-term bonds

Investors prefer short-term bonds

Investors are indifferent between short-term and long-term bonds

Investors prefer intermediate-term bonds

Question # 12 of 20 (Start time: 05:51:25 PM) Total Marks: 1

The Segmented Markets Theory of term structure suggests that:

Select correct option:

Investors have strong preferences for bonds of a particular maturity

Investors have no preference for short-term bonds over long-term bonds, or vice versa

Interest rates on long-term bonds strongly influence the demand for short-term bonds

Bonds of different maturities are perfect substitutes for each other

Question # 13 of 20 (Start time: 05:52:23 PM) Total Marks: 1

Often a bank will require a loan officer to make personal visits on customers with loans outstanding. This is encouraged because:

Select correct option:

The bank worries about competitors trying to steal their customers

The bank wants to make sure the business is still there

The bank likely has excess funds available and hopes to make another loan to the business

This is an effective monitoring technique and should reduce moral hazard

Question # 14 of 20 (Start time: 05:53:10 PM) Total Marks: 1

If the tax rate is higher than gap between yield on taxable and tax exempt bond?

Select correct option:

Shorter

Wider

No gap

Any thing can be possible

Question # 15 of 20 (Start time: 05:53:46 PM) Total Marks: 1

Investors will hold higher compensation for the _____ investment.

Select correct option:

More risky

Less risky

Fixed return

Less dividend

Question # 16 of 20 (Start time: 05:54:14 PM) Total Marks: 1
Which of the following are used to monitor and stabilize the economy?
Select correct option:

Stock exchanges
Commercial Banks
Central Banks
Financial institutions

Question # 17 of 20 (Start time: 05:54:38 PM) Total Marks: 1
The theory of efficient market states that prices of financial instruments reflect:
Select correct option:

All available information
Some of the information
No information
Imperfect information

Question # 18 of 20 (Start time: 05:55:37 PM) Total Marks: 1
With direct finance we mean which of the following?
Select correct option:

Individuals (or firms) borrow directly from the savers
Individuals (or firms) borrow directly from banks.
Individuals deposit savings directly in banks.
Firms deposit savings directly in banks.

Question # 19 of 20 (Start time: 05:56:08 PM) Total Marks: 1
Which of the following best describes the relationship between Bond prices and yields?
Select correct option:

Move together inversely
Bond yields do not change since the coupon is fixed
Move together directly
Are independent of each other

Question # 20 of 20 (Start time: 05:56:35 PM) Total Marks: 1

The fact that common stockholders are residual claimants means:
Select correct option:

- The stockholders receive their dividends before any other residuals are paid
- The stockholders receive the remains after everyone else is paid**
- The stockholders are paid any past due dividends before other claims are paid
- The common stockholders are responsible for all corporate debts

Question # 1 of 20 (Start time: 08:59:18 PM) Total Marks: 1

Which of the following best expresses the payment a lender receives for lending their money for four years?

Select correct option:

$PV(1+i)^4$

$PV/(1+i)^4$

$4PV$

$PV/(1-i)^4$

Question # 2 of 20 (Start time: 08:59:55 PM) Total Marks: 1

Bonds that are issued by Government are called _____.

Select correct option:

Government bond

Treasury bond

Corporate bond

Callable Bonds

Question # 3 of 20 (Start time: 09:00:14 PM) Total Marks: 1

_____ is the interest rate at which the present value annual revenue equals the cost of the investment.

Select correct option:

Fixed rate of interest

Internal rate of return

Variable rate of interest

Nominal rate of interest

Question # 4 of 20 (Start time: 09:00:38 PM) Total Marks: 1

In which of the following bonds we may ignore the default risk?

Select correct option:

Privately issued bonds

Government issued bonds

Bonds issued by Corporate

All of the given options

Question # 5 of 20 (Start time: 09:00:53 PM) Total Marks: 1

Most of the people among us are _____.

Select correct option:

Risk lovers

Risk enhancers

Risk averse

Risk tolerating

Question # 7 of 20 (Start time: 09:01:26 PM) Total Marks: 1

A risk-averse investor will:

Select correct option:

Always prefer an investment with a lower expected return

Always prefer an investment with a certain return to one with the same expected return but any amount of uncertainty

Always require a certain return

Always focus exclusively on the expected return

Question # 8 of 20 (Start time: 09:01:51 PM) Total Marks: 1

Which of the following is NOT included in the definition of M1?

Select correct option:

Traveler's checks

Demand deposits

Currency

Gold coins issued by treasury

Question # 9 of 20 (Start time: 09:02:04 PM) Total Marks: 1

Which one of the following is true for financial intermediaries?

Select correct option:

Channel funds from savers to borrowers

Greatly enhance economic efficiency

Have been an source of many financial innovations

All of the given options

Question # 10 of 20 (Start time: 09:02:32 PM) Total Marks: 1

The lowest rating for an investment grade bond assigned by Moody's is:

Select correct option:

BBB

ABB

Baa

Aaa

Question # 11 of 20 (Start time: 09:03:58 PM) Total Marks: 1

If YTM is less than the coupon rate the price of the bond is _____.

Select correct option:

Greater than its face value

Lower than its face value

Equals to its face value

All of the given options

Question # 12 of 20 (Start time: 09:05:29 PM) Total Marks: 1

What will be the effect on the present value if we double the future value of the payment?

Select correct option:

It will decrease the value by one-half

It will increase the value by one-half

It will equally increase the value i.e. doubles the value

It will have no effect on the value

Question # 13 of 20 (Start time: 09:06:06 PM) Total Marks: 1

Which one of the following is the narrowest definition of money?

Select correct option:

C

M1

M2

M3

Question # 14 of 20 (Start time: 09:06:50 PM) Total Marks: 1

We need _____ to carry out day to day transactions.

Select correct option:

Money

Bonds

Stocks

Loans

Question # 15 of 20 (Start time: 09:07:01 PM) Total Marks: 1

Which one of the following is the strategy of reducing overall risk by making two investments which are totally independent of each other?

Select correct option:

Spreading the risk

Standard deviation

Hedging the risk

Variance

Question # 16 of 20 (Start time: 09:08:07 PM) Total Marks: 1

The Segmented Markets Theory of term structure suggests that:

Select correct option:

Investors have strong preferences for bonds of a particular maturity (This is correct)

Investors have no preference for short-term bonds over long-term bonds, or vice versa

Interest rates on long-term bonds strongly influence the demand for short-term

bonds

Bonds of different maturities are perfect substitutes for each other

Question # 17 of 20 (Start time: 09:09:36 PM) Total Marks: 1

The process of financial intermediation:

Select correct option:

Creates a net cost to an economy but is unavoidable

Is used primarily in underdeveloped countries

Is always used when a borrower needs to obtain funds

Increases the economy's ability to produce

Question # 18 of 20 (Start time: 09:09:56 PM) Total Marks: 1

What will the yield curve look like if future short-term interest rates are expected to rise sharply?

Select correct option:

It will steeply slope upward

It will be horizontal

It will slightly slope upward

It will slope downward

Question # 19 of 20 (Start time: 09:10:37 PM) Total Marks: 1

Sum of all the probabilities should be equal to which one of the following?

Select correct option:

Zero

One

Two

Three

Spreading involves:

Select correct option:

Finding assets whose returns are perfectly negatively correlated

Building a portfolio of assets whose returns move together

Investing in bonds and avoiding stocks during bad times

Adding assets to a portfolio that move independently

Internal Rate of Return is _____.

Select correct option:

Present value of investment

Future value of its investment + Cost of investment

Cost of investment

Present value of investment + cost of investment

Which of the following best describes checks?

Select correct option:

A means of payment

Money

Not a promise of any kind

Not acceptable by the U.S. Government for payment of taxes.

A business cycle downturn shifts the bond supply to the:

Select correct option:

Right

Left

No change

None of the given options

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

Select correct option:

Short-term interest rates to rise sharply

Short-term interest rates to stay near their current levels

Short-term interest rates to drop sharply

Short-term interest rates does not change

Which of the following represents the fisher's equation?

Select correct option:

Nominal interest rate = real interest rate + inflation

Nominal interest rate + inflation = real interest rate

Nominal interest rate = real interest rate - inflation

Nominal interest rate = real interest rate / inflation

Bonds that are issued by Government are called _____.

Select correct option:

Government bond

Treasury bond

Corporate bond

Callable Bonds

What will the yield curve look like if future short-term interest rates are expected to rise sharply?

Select correct option:

It will steeply slope upward

It will be horizontal

It will slightly slope upward

It will slope downward

The interest rate that is involved in _____ calculation is referred to as discount rate

Select correct option:

Present value

Future value

Intrinsic value

Discount value

Which one of the following is true for the relationship between the yield of taxable and tax exempt bond?

Select correct option:

Higher the tax rate wider the gap between the yield of taxable and tax exempt bond

Taxable bond yield is always greater than tax exempt bond

Higher the tax rate shorter the gap between yield of taxable and tax exempt bond

Lower the tax rate wider the gap between yield of taxable and tax exempt bond

You start with a \$1000 portfolio; it loses 40% over the next year, the following year it gains 50% in value; At the end of two years the worth of your portfolio will be:

Select correct option:

\$900

\$600

\$1000

\$1100

first year gain = $1000 \times .40 = 400$

second year loss = $1000 \times .5 = 500$

Total gain or loss after two year = $400 - 500 = -100$

$1000 - 100 = 900$

.

What is true relationship between return and risk?

Select correct option:

Lower the risk greater the return

Greater the risk greater the return

Greater the risk the return will remain constant

No relationship between them

Which of the following is NOT included in the definition of M1?

Select correct option:

Traveler's checks

Demand deposits

Currency

Gold coins issued by treasury

The Financial Systems makes it easier to trade because it:

Select correct option:

Facilitate Payments

Channels Funds from Savers to Borrowers

Enables Risk Sharing

All of the given options

Which one of the following agencies assesses the default risk of different issuers?

Select correct option:

Insurance companies

Bond issuing

Credit rating

Recruitment agencies

In which of the following bonds we may ignore the default risk?

Select correct option:

Privately issued bonds

Government issued bonds

Bonds issued by Corporate

All of the given options

Which of the following best describes default risk?

Select correct option:

The chance the issuer will be unable to make interest payments or repay principal

The chance the issuer will retire the debt early

The chance the issuing firm will be sold to another firm

The chance the issuer will sell more debt

Coupon bonds make the annual payments which are called as _____.

Select correct option:

Annual payments

Fixed payments

Coupon payments

Maturity payment

Q 1: Investors will hold higher compensation for the _____ investment.

Select correct option:

More risky

Less risky

Fixed return

Less dividend

Q 2: Which of the following is true of a nation's central bank?

Select correct option:

It makes important decisions about the nation's tax and public spending policies

It lends only to the nations largest and most important business firms

It has many interactions with the nation's citizens and businesses

It is responsible for conducting the nation's monetary policy

Q 3: A financial instrument in which a borrower obtains resources from a lender immediately in exchange for a promised set of payments in the future is called as _____.

Select correct option:

Bond

Bank Loan

Home Mortgage

Futures Contract

Q 4: An increase in wealth shifts the demand for bonds to the _____.

Select correct option:

Left

Right

No change

All of the given options

Q 5: The slope of the yield curve seems to predict the performance of the economy with:

Select correct option:

Usually 3 months lag

Usually two years lag

Usually within few weeks

Usually one year lag

Q 6: If YTM equals the coupon rate the price of the bond is _____.

Select correct option:

Greater than its face value

Lower than its face value

Equals to its face value

Insufficient information

Q 7: An increase in the expected inflation shifts the bond demand to the _____. Select correct option:

Right

Left

No change

All of the given options

Q 8: Which of the following would be considered characteristic of money?

It is store of value

It pays a higher return than most assets

It is in fixed supply

It is legal tender everywhere in the world

Q 9: The interest rate that is involved in _____ calculation is referred to as discount rate

Select correct option:

Present value

Future value

Intrinsic value

Discount value

Q 10: Debt instruments are categorized on the basis of which one of the following?

Select correct option:

Loan maturity period

Interest rates

Mode of payment of interest

Amount of the debt taken

Q 11: Which of the following is NOT an example of financial institutions? Select correct option:

Banks

Securities firms

Stock exchanges

Insurance companies

Q 12: When stock prices reflect fundamental values:

All investors will experience capital gains

All companies will have an easier task of obtaining financing for investment projects

The allocation of resources will be more efficient

The overall level of the stock market should move higher continuously

Q 13: If YTM is greater than the coupon rate the price of the bond is _____.
Select correct option:

Greater than its face value

Lower than its face value

Equals to its face value

All of the given options

Q 14: A _____ is a promise to make a series of payments on specific future date.

Select correct option:

Stock

Bond

Loan

Cheque

Q 15: Without the ability of financial intermediaries to pool the resources of small savers: Select correct option:

Borrowers needing large amounts of money would find it less costly to obtain the funds

The economy would likely grow faster

People would likely save more

The risk associated with lending would increase

Q 16: A bank can usually offer a saver a higher return for the same risk because: Select correct option:

The bank can usually purchase assets at a higher cost than any one saver

The bank can pool the resources of larger savers and purchase lower denominated assets NOT SURE

Economies of scale can be applied by the bank in its purchase of assets None of the given options

Q 17: The fact that a financial intermediary can use the same contract for many customers is an example of: Select correct option:

Economies of Scope

The Law of Diminishing Marginal Returns

The Law of Increasing Opportunity Cost

Economies of Scale

Q 18: _____ are organized to eliminate the need of costly information gathering. Select correct option:

Central bank

Commercial banks

Stock exchanges

Insurance companies

Q 19: What will be the effect on the present value if we double the future value of the payment? Select correct option:

It will decrease the value by one-half

It will increase the value by one-half

It will equally increase the value i.e. doubles the value NOT SURE

It will have no effect on the value

Q 20: Which one of the following is the narrowest definition of money? Select correct option:

C

M1

M2

M3

MGT411 – Money & Banking

Online Quiz # 2

December 26, 2009

Question # 1 of 20 (Start time: 02:24:40 AM) Total Marks: 1

Core principles of Money and Banking include each of the following except?

Select correct option:

People act rationally

Time has value

Information is the basis for decisions

Risk requires compensation

Question # 2 of 20 (Start time: 02:25:14 AM)

Internal Rate of Return is _____.

Select correct option:

Present value of investment

Future value of its investment +Cost of investment

Cost of investment

Present value of investment + cost of investment

Question # 3 of 20 (Start time: 02:26:35 AM) Total Marks: 1

The relationship between the price and the interest rate for a zero coupon bond is best described as:

Select correct option:

Volatile

Stable

Non-existent

Inverse (see page # 43 of handouts)

Question # 4 of 20 (Start time: 02:27:03 AM) Total Marks: 1

Which one of the following is the narrowest definition of money?

Select correct option:

C

M1 (see page # 12)

M2

M3

Question # 5 of 20 (Start time: 02:27:13 AM) Total Marks: 1

Investors will hold higher compensation for the _____ investment.

Select correct option:

More risky

Less risky

Fixed return

Less dividend

Question # 6 of 20 (Start time: 02:27:47 AM) Total Marks: 1

What is the true relationship that exists between default risk and yield?

Select correct option: <http://vustudents.ning.com>

Higher the default risk, higher the yield (see page # 53)

Lower the default risk, higher the yield

Higher the default risk yield will remain constant

Lower the default risk yield will remain constant

Question # 7 of 20 (Start time: 02:28:19 AM) Total Marks: 1

Without the ability of financial intermediaries to pool the resources of small savers:

Select correct option:

Borrowers needing large amounts of money would find it less costly to obtain the funds

The economy would likely grow faster

People would likely save more

The risk associated with lending would increase

Question # 8 of 20 (Start time: 02:29:10 AM) Total Marks: 1

When a bond becomes more liquid relative to its alternatives, the demand curve for bonds shifts to the:

Select correct option:

Right (see page # 49)

Left

No change

None of the given options

Question # 9 of 20 (Start time: 02:29:40 AM) Total Marks: 1

In a financial market where information is symmetric:

Select correct option:

The same information would be known by both parties in a transaction

One party to a transaction knows information the other party does not

The ability to obtain information is available to only one party

All of the given options

Question # 10 of 20 (Start time: 02:30:07 AM) Total Marks: 1

The _____ are an assessment of the creditworthiness of the corporate issuer.

Select correct option:

Bond yield

Bond ratings (see page # 54)

Bond risk

Bond price

Question # 11 of 20 (Start time: 02:30:25 AM) Total Marks: 1

An increase in the expected inflation shifts the bond demand to the _____.

Select correct option:

Right

Left

No change

All of the given options

Question # 12 of 20 (Start time: 02:31:19 AM) Total Marks: 1

Which of the following is NOT included in the definition of M1?

Select correct option:

Traveler's checks

Demand deposits

Currency

Gold coins issued by treasury (see page # 12)

Question # 13 of 20 (Start time: 02:32:21 AM) Total Marks: 1

Bonds without maturity dates are which of the followings?

Select correct option:

Zero coupon bonds

Coupon securities

Consols

Preferred Bonds

Question # 14 of 20 (Start time: 02:33:14 AM) Total Marks: 1

Debt instruments is categorized on the basis of which one of the following?

Select correct option:

Loan maturity period (See page # 20)

Interest rates

Mode of payment of interest

Amount of the debt taken

Question # 15 of 20 (Start time: 02:33:37 AM) Total Marks: 1

Which of the following institution take direct deposit from customer and give loan to customer directly?

Select correct option:

Zarai Tarkaytee Bank LTD

Soneri Bank

Khushali Bank

Credit unions

(not sure, but i selected option # 4, kindly verify it)

Question # 16 of 20 (Start time: 02:33:53 AM) Total Marks: 1

If we ignore risk, the dividend discount model says the fundamental price of a stock is simply:

Select correct option:

The current dividend divided by the interest rate less the dividend growth rate

The annual growth rate of the dividend minus the interest rate divided by the current dividend

The current dividend divided by the interest rate plus the dividend growth rate

The current dividend divided by the dividend growth rate less the interest rate

Question # 17 of 20 (Start time: 02:34:59 AM) Total Marks: 1

Which of the following is true of a nation's central bank?

Select correct option:

It makes important decisions about the nation's tax and public spending policies

It lends only to the nation's largest and most important business firms

It has many interactions with the nation's citizens and businesses

It is responsible for conducting the nation's monetary policy (see page # 96)

Question # 18 of 20 (Start time: 02:35:56 AM) Total Marks: 1

If bond's rating is lower, what will be its price?

Select correct option:

Higher

Lower

Equal to

No change

(not 100% sure, but option # 2 "Lower" seems most appropriate)

Question # 19 of 20 (Start time: 02:36:57 AM) Total Marks: 1

The price of a coupon bond can best be described as:

Select correct option: <http://vustudents.ning.com>

The present value of the face value

The future value of the coupon payments and the face value

The present value of the coupon payments

Both The present value of the face value and of the coupon payments (see page # 31 & 32)

Question # 20 of 20 (Start time: 02:37:36 AM) Total Marks: 1

Which one of the following is NOT true for the expectation hypothesis?

Select correct option:

Risk free interest rate can be computed

There is uncertainty in the future

Identifying yield of bond today that will be available next year

It focuses on risk free interest rate and the risk premium

(not 100%, but I selected option # 2, see page # 58)

Question # 1 of 20 (Start time: 12:09:02 AM) Total Marks: 1

When a bond becomes more liquid relative to its alternatives, the demand curve for bonds shifts to the:

Select correct option:

Right (page # 49)

Left

No change

None of the given options

Question # 2 of 20 (Start time: 12:09:36 AM) Total Marks: 1

According to the rule of 72 for reasonable rates of return, the time it takes to _____ the money will be $t = 72/i\%$

Select correct option:

Doubles (page # 27)

Triples

halves

$\frac{3}{4}$

Question # 3 of 20 (Start time: 12:10:22 AM) Total Marks: 1

Which one of the following is the narrowest definition of money?

Select correct option:

C

M1 (see page # 12)

M2

M3

Question # 4 of 20 (Start time: 12:11:17 AM) Total Marks: 1

An index number is a valuable tool because:

Select correct option:

The number by itself provides all of the useful information needed

The index provides a meaningful measurement scale to calculate percentage changes

The index is more stable than the data it reflects

It does not require any calculations to compute percentage changes

(not sure, but I selected option # 2, kindly verify it)

Question # 5 of 20 (Start time: 12:12:34 AM) Total Marks: 1

Yield curves show which of the followings?

Select correct option:

The relationship between bond interest rates (yields) and bond prices

The relationship between liquidity and bond interest rates (yields)

The relationship between risk and bond interest rates (yields)

The relationship between time to maturity and bond interest rates (yields) (see page # 57)

Question # 6 of 20 (Start time: 12:12:55 AM) Total Marks: 1

A zero coupon bond:

Select correct option:

Does not pay any coupon payments because the issuer is in default

Pays coupons only once a year versus the usual twice a year

Promises a single future payment (see page # 42)

Pays coupons only if the bond price is below face value

Question # 7 of 20 (Start time: 12:13:32 AM) Total Marks: 1

Home loans and car loans are the example of which one of the following?

Select correct option:

Mortgage loans

Pledge

Fixed Payment Loans (see page # 43)

Ordinary loan

Question # 8 of 20 (Start time: 12:14:45 AM) Total Marks: 1

Without the ability of financial intermediaries to pool the resources of small savers:

Select correct option:

Borrowers needing large amounts of money would find it less costly to obtain the funds

The economy would likely grow faster

People would likely save more

The risk associated with lending would increase

Question # 9 of 20 (Start time: 12:16:11 AM) Total Marks: 1

What is the true relationship that exists between default risk and yield?

Select correct option:

Higher the default risk, higher the yield (see page # 53)

Lower the default risk, higher the yield

Higher the default risk yield will remain constant

Lower the default risk yield will remain constant

Question # 10 of 20 (Start time: 12:17:28 AM) Total Marks: 1

Expectation hypothesis focuses on which one of the following?

Select correct option:

Risk premium

Risk free interest rate

Yield to maturity

None of the given options

(Not sure, but I selected option# 2)

Question # 11 of 20 (Start time: 12:18:49 AM) Total Marks: 1

Spreading involves:

Select correct option:

Finding assets whose returns are perfectly negatively correlated

Building a portfolio of assets whose returns move together

Investing in bonds and avoiding stocks during bad times

Adding assets to a portfolio that move independently

(Confused b/w option # 1 & 4, read page # 41)

Question # 12 of 20 (Start time: 12:19:20 AM) Total Marks: 1

The _____ are an assessment of the creditworthiness of the corporate issuer.

Select correct option:

Bond yield

Bond ratings

Bond risk

Bond price

Question # 13 of 20 (Start time: 12:19:36 AM) Total Marks: 1

Which one of the following is the procedure of finding out the Present Value (PV)?

Select correct option:

Discounting

Compounding

Time value of money

Bond pricing

Question # 14 of 20 (Start time: 12:20:00 AM) Total Marks: 1

Which of the following best describes the relationship between Bond prices and yields?

Select correct option:

Move together inversely

Bond yields do not change since the coupon is fixed

Move together directly

Are independent of each other

Question # 15 of 20 (Start time: 12:21:08 AM)

Which of the following institution take direct deposit from customer and give loan to customer directly?

Select correct option:

Zarai Tarkaytee Bank LTD

Soneri Bank

Khushali Bank

Credit union

(I selected "Credit Union", not 100% sure)

Question # 16 of 20 (Start time: 12:22:32 AM) Total Marks: 1

When the auto manufacturing industry does poorly due to a recession this is an example of:

Select correct option:

Idiosyncratic risk

Systematic risk

Risk premium

Unique risk

(It should be "Systematic Risk", but again not 100% sure) see page # 39.

Question # 17 of 20 (Start time: 12:23:42 AM) Total Marks: 1

A bank can usually offer a saver a higher return for the same risk because:

Select correct option:

The bank can usually purchase assets at a higher cost than any one saver

The bank can pool the resources of larger savers and purchase lower denominated assets

Economies of scale can be applied by the bank in its purchase of assets

None of the given options

Question # 18 of 20 (Start time: 12:24:51 AM) Total Marks: 1

In a financial market where information is symmetric:

Select correct option:

The same information would be known by both parties in a transaction

One party to a transaction knows information the other party does not

The ability to obtain information is available to only one party

All of the given options

Question # 19 of 20 (Start time: 12:25:29 AM) Total Marks: 1

The shape of the yield curve is usually:

Select correct option:

Upward sloping (page # 60)

Downward sloping

Upward sloping for shorter maturities and downward sloping for longer maturities

Flat

Question # 20 of 20 (Start time: 12:26:38 AM) Total Marks: 1

Which one of the following is true for financial intermediaries?

Select correct option:

Channel funds from savers to borrowers

Greatly enhance economic efficiency

Have been an source of many financial innovations

All of the given options

MGT411 Solved MCQ5 from Quiz #2

The fact that common stockholders are residual claimants means:
Select correct option:

The stockholders receive the remains after everyone else is paid

The stockholders are paid any past due dividends before other claims are paid
The common stockholders are responsible for all corporate debts

Which one of the following is true for financial intermediaries?
Select correct option:

Channel funds from savers to borrowers
Greatly enhance economic efficiency
Have been an source of many financial innovations
All of the given options

relationship between the price and the interest rate for a zero coupon bond is best described as:
Select correct option:

Volatile
Stable
Non-existent
Inverse

Reference: The price of a bond and the interest rate move in opposite directions

Consumer Price Index (CPI) measures the:
Select correct option:

Changes in the quantity

Changes in the prices

Changes in the cost
Changes in the profit

Reference: CPI :Measure of the overall level of prices

Core principles of Money and Banking include each of the following except?
Select correct option:

People act rationally

Time has value
Information is the basis for decisions
Risk requires compensation

The longer the time (n) until the payment:
Select correct option:

The lower the present value

The higher the present value because time is valuable
The lower must be the interest rate
Time has no effect on present value

When stock prices reflect fundamental values:
Select correct option:

All investors will experience capital gains
All companies will have an easier task of obtaining financing for investment projects

The allocation of resources will be more efficient

The overall level of the stock market should move higher continuously

Reference: So long as stock prices accurately reflect fundamental values, this resource allocation mechanism works well

What will be the result of the difference of real and nominal interest rate?
Select correct option:

The cost of borrowing

The effect of inflation

The price of bonds
The return of bonds

If the annual interest rate is 6%, the price of a 1-year Treasury bill with \$100 face value would be:
Select correct option:

- \$94.00
- \$94.33**
- \$95.25
- \$96.10

Which of the following would probably NOT earn an A rating from Standard & Poor's:
Select correct option:

- 30 years bond issued by the U.S. Treasury
- New vegetarian fast-food chain
- 90 days T-Bills issued by the U.S. Treasury

Both 30 years bond and 90 days T-Bills issued by U.S. Treasury

There is no guarantee that a bond issuer will make the promised payments is known as which one of the following?

Select correct option:

Default risk

Inflation risk

Interest rate risk

Systematic risk

If a bond sells at a premium, where price exceeds face value, then we would expect to see:

Select correct option:

Market interest rate the same as the coupon rate

Market interest rates above the coupon rate

Market interest rates below the coupon rate

All of the given options

Reference: So, When Market Interest Rate < Coupon Interest Rate, Market Value (or Price) of Bond > Par Value. Because when market is offering lower rate of return then the bond then the bond becomes valuable. This is known as a Premium Bond. Pg no.68 MGT201 H.outs

Which of the following is a role of a financial institution acting as a financial intermediary?

Select correct option:

Pooling the resources of small savers

Formulating oversight regulations

Sending out free calendars at the holidays

Lobbying legislators

Reference: The most straightforward economic function of a financial intermediary is to pool the resources of many small savers Pg no.71 MGT411 H.outs

Financial Systems makes it easier to trade because it:

Select correct option:

Facilitate Payments

Channels Funds from Savers to Borrowers

Enables Risk Sharing

All of the given options

Which of the following is the measure of likelihood that an event will occur?
Select correct option:

Risk

Probability

Frequency

Outcom

The concept of limited liability says a stockholder of a corporation:
Select correct option:

Is liable for the corporation's liabilities, but nothing more

Cannot receive dividends that exceed their investment

Cannot own more than fiver percent of any public corporation

Cannot lose more than their investment

Reference: Because of limited liability, investor's losses cannot exceed the price they paid for the stock Pg no.63 MGT411 H.outs

The risk premium for an investment:
Select correct option:

Increases with risk

Is a fixed amount added to the risk free return

Is negative for U.S. Treasury Securities

Is negative for risk averse investors