

# [Fin 534 quiz 3 essay](https://assignbuster.com/fin-534-quiz-3-essay/)

Question 1 . 2 out of 2 points Your bank account pays a 6% nominal rate of interest. The interest is compounded quarterly. Which of the following statements isCorrect ? Answer SelectedAnswer: The periodic rate of interest is 1. 5% and the effective rate of interest is greater than 6%. Correct Answer: The periodic rate of interest is 1. 5% and the effective rate of interest is greater than 6%. .

Question 2 . 2 out of 2 points Which of the following statements regarding a 15-year (180-month) $125, 000, fixed-rate mortgage isCorrect ? (Ignore taxes and transactions costs. Answer SelectedAnswer: The outstanding balance declines at a faster rate in the later years of the loan’s life. Correct Answer: The outstanding balance declines at a faster rate in the later years of the loan’s life.

Question 3 . 2 out of 2 points You plan to analyze the value of a potential investment by calculating the sum of the present values of its expected cash flows. Which of the following would lower the calculated value of the investment? Answer SelectedAnswer: The discount rate increases. Correct Answer: The discount rate increases.

Question 4 . out of 2 points Which of the following statements isCorrect , assuming positive interest rates and holding other things constant? Answer SelectedAnswer: If an investment pays 10% interest, compounded annually, its effective annual rate will be less than 10%. Correct Answer: A bank loan’s nominal interest rate will always be equal to or less than its effective annual rate.

Question 5 . 0 out of 2 points Which of the following statements isCorrect ? Answer SelectedAnswer: If you solve for I and get a negative number, then you must have made a mistake. Correct Answer: If CF0 is positive and all the other CFs are negative, then you can still solve for I.

Question 6 . 2 out of 2 points Which of the following statements isCorrect ? Answer SelectedAnswer: Time lines can be constructed to deal with situations where some of the cash flows occur annually but others occur quarterly. Correct Answer: Time lines can be constructed to deal with situations where some of the cash flows occur annually but others occur quarterly.

Question 7 . 2 out of 2 points A $150, 000 loan is to be amortized over 7 years, with annual end-of-year payments. Which of these statements isCorrect ? Answer SelectedAnswer: The proportion of each payment that represents interest versus repayment of principal would be higher if the interest rate were higher. Correct Answer: The proportion of each payment that represents interest versus repayment of principal would be higher if the interest rate were higher.

Question 8 . 2 out of 2 points A U. S. Treasury bond will pay a lump sum of $1, 000 exactly 3 years from today. The nominal interest rate is 6%, semiannual compounding. Which of the following statements isCorrect ? Answer SelectedAnswer: The present value of the $1, 000 would be smaller if interest were compounded monthly rather than semiannually. Correct Answer: The present value of the $1, 000 would be smaller if interest were compounded monthly rather than semiannually.

Question 9 . 2 out of 2 points Your bank account pays an 8% nominal rate of interest. The interest is compounded quarterly. Which of the following statements isCorrect ? Answer SelectedAnswer: The periodic rate of interest is 2% and the effective rate of interest is greater than 8%. Correct Answer: The periodic rate of interest is 2% and the effective ate of interest is greater than 8%.

Question 10 . 2 out of 2 points You are considering two equally risky annuities, each of which pays $5, 000 per year for 10 years. Investment ORD is an ordinary (or deferred) annuity, while Investment DUE is an annuity due. Which of the following statements isCorrect ? Answer SelectedAnswer: The present value of DUE exceeds the present value of ORD, and the future value of DUE also exceeds the future value of ORD. Correct Answer: The present value of DUE exceeds the present value of ORD, and the future value of DUE also exceeds the future value of ORD.

Question 11 . 0 out of 2 points Which of the following bank accounts has the lowest effective annual return? Answer SelectedAnswer: An account that pays 8% nominal interest with daily (365-day) compounding. Correct Answer: An account that pays 7% nominal interest with monthly compounding.

Question 12 . 2 out of 2 points Which of the following statements isCorrect ? Answer SelectedAnswer: The cash flows for an annuity must all be equal, and they must occur at regular intervals, such as once a year or once a month. Correct Answer: The cash flows for an annuity must all be equal, and they must occur at regular intervals, such as once a year or once a month.

Question 13 . 2 out of 2 points Which of the following statements isCorrect ? Answer SelectedAnswer: Time lines can be constructed for annuities where the payments occur at either the beginning or the end of the periods. Correct Answer: Time lines can be constructed for annuities where the payments occur at either the beginning or the end of the periods.

Question 14 . 2 out of 2 points Which of the following statements isCorrect ? Answer SelectedAnswer: Time lines can be constructed where some of the payments constitute an annuity but others are unequal and thus are not part of the annuity. Correct Answer: Time lines can be constructed where some of the payments constitute an annuity but others are unequal and thus are not part of the annuity.

Question 15 . 2 out of 2 points You plan to analyze the value of a potential investment by calculating the sum of the present values of its expected cash flows. Which of the following would increase the calculated value of the investment? Answer SelectedAnswer: The discount rate decreases. Correct Answer: The discount rate decreases.

Question 16 . 2 out of 2 points Which of the following statements isCorrect ? Answer SelectedAnswer: Sinking fund provisions sometimes turn out to adversely affect bondholders, and this is most likely to occur if interest rates decline after the bond has been issued. Correct Answer: Sinking fund provisions sometimes turn out to adversely affect bondholders, and this is most likely to occur if interest rates decline after the bond has been issued.

Question 17 . 2 out of 2 points If its yield to maturity declined by 1%, which of the following bonds would have the largest percentage increase in value? Answer SelectedAnswer: A 10-year zero coupon bond. Correct Answer: A 10-year zero coupon bond.

Question 18 . 2 out of 2 points Which of the following events would make it more likely that a company would choose to call its outstanding callable bonds? Answer SelectedAnswer: Market interest rates decline sharply. Correct Answer: Market interest rates decline sharply.

Question 19 . 2 out of 2 points You are considering two bonds. Bond A has a 9% annual coupon while Bond B has a 6% annual coupon. Both bonds have a 7% yield to maturity, and the YTM is expected to remain constant. Which of the following statements isCorrect ? Answer SelectedAnswer: The price of Bond A will decrease over time, but the price of Bond B will increase over time. Correct Answer: The price of Bond A will decrease over time, but the price of Bond B will increase over time.

Question 20 . 2 out of 2 points Which of the following statements isCorrect ? Answer SelectedAnswer: If a coupon bond is selling at par, its current yield equals its yield to maturity. Correct Answer: If a coupon bond is selling at par, its current yield equals its yield to maturity. .

Question 21 . 2 out of 2 points Assume that all interest rates in the economy decline from 10% to 9%. Which of the following bonds would have the largest percentage increase in price? Answer SelectedAnswer: A 10-year zero coupon bond. Correct Answer: A 10-year zero coupon bond.

Question 22 . 2 out of 2 points Tucker Corporation is planning to issue new 20-year bonds. Initially, the plan was to make the bonds non-callable. If the bonds were made callable after 5 years at a 5% call premium, how would this affect their required rate of return? Answer SelectedAnswer: The required rate of return would increase because the bond would then be more risky to a bondholder. Correct Answer: The required rate of return would increase because the bond would then be more risky to a bondholder.

Question 23 . 2 out of 2 points An investor is considering buying one of two 10-year, $1, 000 face value bonds: Bond A has a 7% annual coupon, while Bond B has a 9% annual coupon. Both bonds have a yield to maturity of 8%, which is expected to remain constant for the next 10 years. Which of the following statements isCorrect ? Answer SelectedAnswer: One year from now, Bond A’s price will be higher than it is today. Correct Answer: One year from now, Bond A’s price will be higher than it is today.

Question 24 . 2 out of 2 points Which of the following statements isCorrect ? Answer SelectedAnswer: Relative to a coupon-bearing bond with the same maturity, a zero coupon bond has more interest rate price risk but less reinvestment rate risk. Correct Answer: Relative to a coupon-bearing bond with the same maturity, a zero coupon bond has more interest rate price risk but less reinvestment rate risk.

Question 25 . out of 2 points Amram Inc. can issue a 20-year bond with a 6% annual coupon. This bond is not convertible, is not callable, and has no sinking fund. Alternatively, Amram could issue a 20-year bond that is convertible into common equity, may be called, and has a sinking fund. Which of the following most accurately describes the coupon rate that Amram would have to pay on the convertible, callable bond? Answer SelectedAnswer: It could be less than, equal to, or greater than 6%. Correct Answer: It could be less than, equal to, or greater than 6%.

Question 26 . 2 out of 2 points A 15-year bond with a face value of $1, 000 currently sells for $850. Which of the following statements isCorrect ? Answer SelectedAnswer: The bond’s yield to maturity is greater than its coupon rate. Correct Answer: The bond’s yield to maturity is greater than its coupon rate.

Question 27 . 2 out of 2 points Which of the following statements isCorrect ? Answer SelectedAnswer: All else equal, senior debt generally has a lower yield to maturity than subordinated debt. Correct Answer: All else equal, senior debt generally has a lower yield to maturity than subordinated debt.

Question 28 . 2 out of 2 points Which of the following bonds would have the greatest percentage increase in value if all interest rates fall by 1%? Answer SelectedAnswer: 20-year, zero coupon bond. Correct Answer: 20-year, zero coupon bond.

Question 29 . 2 out of 2 points A 10-year bond with a 9% annual coupon has a yield to maturity of 8%. Which of the following statements isCorrect ? Answer SelectedAnswer: If the yield to maturity remains constant, the bond’s price one year from now will be lower than its current price. Correct Answer: If the yield to maturity remains constant, the bond’s price one year from now will be lower than its current price.

Question 30 . 2 out of 2 points A 10-year Treasury bond has an 8% coupon, and an 8-year Treasury bond has a 10% coupon. Both bonds have the same yield to maturity. If the yield to maturity of both bonds increases by the same amount, which of the following statements would beCorrect ? Answer SelectedAnswer: Both bonds would decline in price, but the 10-year bond would have the greater percentage decline in price. Correct Answer: Both bonds would decline