Quiz # 4
Dr. Nath

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. We would expect the interest rate on Bond A to be higher than the interest rate on Bond B if the two bonds have identical characteristics except that
   a. Bond A was issued by a financially weak corporation and Bond B was issued by a financially strong corporation.
   b. Bond A was issued by the General Electric Corporation and Bond B was issued by the state of California.
   c. Bond A has a term of 20 years and Bond B has a term of 1 year.
   d. All of the above are correct.

2. On which of these bonds is the prospect of default least likely?
   a. a junk bond
   b. a bond issued by the state of Texas
   c. a bond issued by the federal government
   d. a bond issued by Exxon Mobil Corporation

3. Other things the same, as the maturity of a bond becomes longer, the bond will pay
   a. a lower interest rate because it has less risk.
   b. a lower interest rate because it has more risk.
   c. a higher interest rate because it has more risk.
   d. the same interest rate, because there is no relationship between term and risk.

4. Which of the following would likely make the interest rate on a bond higher than otherwise?
   a. both high credit risk and a long term
   b. high credit risk but not a long term
   c. a long term but not a high credit risk
   d. neither high credit risk nor a long term

5. Which of the following people purchased the correct asset to meet his or her objective?
   a. Michelle wanted to be a part owner of Mamma Rosa's Pizza, so she purchased a bond issued by Mamma Rosa's Pizza.
   b. Tim wanted a high return, even if it meant taking some risk, so he purchased stock issued by Specific Electric instead of bonds issued by Specific Electric.
   c. Jennifer wanted to buy equity in Honda, so she purchased bonds sold by Honda.
   d. All of the above are correct.

6. Compared to stocks, bonds offer the holder
   a. lower risk and lower potential return.
   b. lower risk and higher potential return.
   c. higher risk and lower potential return.
   d. higher risk and higher potential return.
7. A stock index is
a. an average of a group of stock prices.
b. an average of a group of stock yields.
c. a measure of the risk relative to the profitability of corporations.
d. a report in a newspaper or other media outlet on the price of the stock and earnings of the corporation that issued the stock.

8. A high demand for a company’s stock is an indication that
a. the company is in need of funds.
b. the company has recently sold a large quantity of bonds.
c. people are optimistic about the company’s future.
d. people are pessimistic about the company’s future.

9. Which of the following statements about mutual funds is correct?
a. A mutual fund is a financial intermediary.
b. A mutual fund acquires its funds primarily by selling shares to the public.
c. People who buy shares from a mutual fund accept all of the risk and return associated with the mutual fund’s portfolio.
d. All of the above are correct.

10. When a society decides to increase its quantity of physical capital, the society
a. can avoid the usual need to face trade-offs.
b. is apparently not very concerned about its rate of economic growth in the future.
c. is in effect deciding to consume fewer goods and services in the present.
d. is in effect deciding to save less of its current income in the present.
MULTIPLE CHOICE

1. ANS: D  PTS: 1  DIF: 2  REF: 26-1
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Bonds  MSC: Applicative

2. ANS: C  PTS: 1  DIF: 2  REF: 26-1
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Bonds | Risk  MSC: Interpretive

3. ANS: C  PTS: 1  DIF: 2  REF: 26-1
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Bonds | Risk  MSC: Interpretive

4. ANS: A  PTS: 1  DIF: 1  REF: 26-1
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Bonds | Interest rates  MSC: Definitional

5. ANS: B  PTS: 1  DIF: 1  REF: 26-1
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Bonds | Stock  MSC: Interpretive

6. ANS: A  PTS: 1  DIF: 2  REF: 26-1
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Bonds, Stock  MSC: Interpretive

7. ANS: A  PTS: 1  DIF: 1  REF: 26-1
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Stock indexes  MSC: Definitional

8. ANS: C  PTS: 1  DIF: 2  REF: 26-1
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Stock  MSC: Interpretive

9. ANS: D  PTS: 1  DIF: 2  REF: 26-1
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Mutual funds  MSC: Interpretive

10. ANS: C  PTS: 1  DIF: 2  REF: 25-3
   NAT: Analytic  LOC: Productivity and growth  TOP: Investment
   MSC: Interpretive