1. A downward sloping yield curve would suggest that financial markets expect:
   a. short term interest rates will rise over time.
   b. short term interest rates will fall over time.
   c. long term interest rates are higher than short term interest rates.
   d. inflation rates will rise over time.

2. Consider a one year bond with a coupon rate of 6 percent, and a maturity value of $1,000. What is the effective yield on this bond if the selling price today is $950? (Round to the nearest tenth of a percent).
   a. 6.3%  b. 8.3%  c. 10.4%  d. 11.6%

3. Consider a 10 year zero coupon bond with a maturity value of $10,000. What is the effective yield on this bond if the selling price today is $8,000? (Round to the nearest tenth of a percent).
   a. 1.3%  b. 2.3%  c. 2.5%  d. 3.5%

4. On April 15, 2003, a call option on Dell stock with a strike price of 25 and an expiration date of May 2003 sold for $4.10. Assuming no commission fees for the purchase or sale of options, if you purchased this call option for $4.10, you would make a profit on the overall transaction if and only if:
   a. the price of Dell rose above $25.00 by May 2003.
   b. the price of Dell rose above $29.10 by May 2003.
   c. the price of Dell rose above $20.90 by May 2003.
   d. the price of Dell fell below $25.00 by May 2003.

5. The price that you would be willing to pay for a put option on Dell should be greater:
   a. for options with a lower strike price.
   b. for options with a higher strike price.
   c. for options with a later expiration date.
   d. a and c.
   e. b and c.

6. A company that has low earnings now but is expected to have substantial earnings growth in the future is likely to have:
   a. a high beta.
   b. a low beta.
   c. a low P/E ratio.
   d. a high P/E ratio.

7. The fundamental value of a company's stock will rise if:
   a. interest rates fall or future the company's future expected dividends fall.
   b. interest rates rise or future the company's future expected dividends fall.
   c. interest rates fall or future the company's future expected dividends rise.
   d. interest rates rise or future the company's future expected dividends rise.
8. According to the efficient markets hypothesis:
   a. if you read good news about a company today that leads you to believe it will have higher profits in the future, you would profit by purchasing stock in the company tomorrow.
   b. stock analysts cannot provide advice on stock choices that will allow you to consistently beat the average return on stocks.
   c. stock analysts can provide advice on stock choices that will allow you to consistently beat the average return on stocks.
   d. a and b.
   e. a and c.

9. Which of the following statements is true?
   a. Interest earned on municipal bonds is taxed by the federal government.
   b. Interest earned on Treasurys (federal bonds) is taxed by state and local governments.
   c. AAA corporate bonds generally pay lower interest rates than BB corporate bonds.
   d. all of the above are true.

10. According to the reading on index funds,
    a. An advantage of an index fund is that it has lower operating expenses than managed funds.
    b. Only 20 percent of managed mutual funds “outperform” the market in a given year.
    c. The list of top-performing mutual funds has few names that repeat from one year to the next.
    d. All of the above.

11. Which of the following is true?
    a. It would be profitable to buy a January 2004 futures contract for corn at $3 per bushel if the price of corn in January 2004 turns out to be above $3 per bushel
    b. A person who holds a large share of her wealth in a single stock could reduce her loss from a decline in that stock's price by selling call options on that stock.
    c. An employer who wants to give employees an increase in compensation if the company's stock price rises could accomplish this by giving employees call options.
    d. all of the above are true.