

ECON 133 – Securities Markets – Fall 2010

ANSWER KEY

SCORE

QUIZ #1

NAME: _____

Student Number: _____

Directions: Choose the best answer to the 10 questions posed below and enter in the box. You have exactly 10 minutes to complete this exercise.

1. Which of the following trade orders will definitely result in an execution?

- A. BUY 1000 XYZ AT \$50
- B. BUY 1000 XYZ AT \$50 LMT
- C. BUY 1000 XYZ AT MKT**
- D. BUY 1000 XYZ AT \$50 STOP
- E. (a) and (c)
- F. (c) and (d)
- G. All of the above will definitely result in an execution

2. Financial assets represent _____ of total assets of U.S. households.

- A. over 60%**
- B. over 90%
- C. under 10%
- D. about 30%

3. A bond issue is broken up so that some investors will receive interest payments while others will receive principal payments. This is an example of _____.

- A. bundling
- B. credit enhancement
- C. securitization
- D. unbundling**

4. Initial margin requirements on stocks are set by _____.

- A. the Federal Deposit Insurance Corporation
- B. the Federal Reserve**
- C. the New York Stock Exchange
- D. the Securities and Exchange Commission

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5. You short-sell 200 shares of Tuckerton Trading Co., now selling for \$50 per share. What is your maximum possible loss?
- A. \$50
 - B. \$150
 - C. \$10,000
 - D. unlimited**

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6. An investor puts up \$5,000 but borrows an equal amount of money from their broker to double the amount invested to \$10,000. The broker charges 7% on the loan. The stock was originally purchased at \$25 per share and in one year the investor sells the stock for \$28. The investor's rate of return was ____.
- A. 17%**
 - B. 12%
 - C. 14%
 - D. 19%

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7. Both investors and gamblers take on risk. The difference between an investor and a gambler is that an investor ____.
- A. is normally risk neutral
 - B. requires a risk premium to take on the risk**
 - C. knows he or she will not lose money
 - D. knows the outcomes at the beginning of the holding period

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8. If you are promised a nominal return of 12% on a one year investment, and you expect the rate of inflation to be 3%, what real rate do you expect to earn?
- A. 5.48%
 - B. 15.00%
 - C. 9.00%**
 - D. 12.00%

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9. Yesterday (Sept. 30, 2010) the DJIA closed at how many points?
- A. 10,788.05**
 - B. 2,368.62
 - C. 1,141.20
 - D. 676.14

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10. (True/False) According to the DJIA, this year the U.S. stock market experienced its strongest September rally in 71 years.
- A. TRUE**
 - B. FALSE