

ECON 133 – Securities Markets – Fall 2010

SCORE

QUIZ #3

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.

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1. During the week of October 29, 2010 U.S. Treasury notes and treasury bond prices rose because of all of the following EXCEPT:
- A. lower than expected GDP growth
 - B. expectation of Federal Reserve's second round of "quantitative easing"
 - C. higher than expected inflation**
 - D. anticipation that Federal Reserve will purchase more Treasury notes and bonds.

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2. Which of the following beliefs would not preclude charting as a method of portfolio management?
- A. The market is strong form efficient.
 - B. The market is semi-strong form efficient.
 - C. The market is weak form efficient.
 - D. Stock prices follow recurring patterns.**

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3. The strong form of the EMH states that _____ must be reflected in the current stock price.
- A. all security price and volume data
 - B. all publicly available information
 - C. all information including inside information**
 - D. all costless information

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4. Random price movements indicate _____.
- A. irrational markets
 - B. that prices cannot equal fundamental values
 - C. that technical analysis to uncover trends can be quite useful
 - D. that markets are functioning efficiently**

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5. The Dow Theory is a technique that attempts to identify _____.
- A. only long-term trends in stock market prices
 - B. only short-term trends in stock market prices
 - C. both long-term and short-term trends in stock market prices**
 - D. trends in arbitrage trading opportunities

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6. Why is the yield-to-maturity on Treasury inflation protected securities (TIPS) negative? Because investors wanted to _____ these bonds, which _____ their price so much that yields became negative.

- A. buy; dropped
- B. sell; dropped
- C. buy; raised**
- D. sell; raised
- E. None of the above

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7. The Federal Reserve needs to use 'quantitative easing' (via long-term bond purchases) rather than traditional monetary policy tools (federal funds rate, discount rate, required reserve ratio) because

- A. it is targeting short-term interest rates
- B. it is targeting long-term interest rates**
- C. it is trying to prevent inflation
- D. short-term interest rates are too high to be affected by monetary policy

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8. A _____ bond is a bond where the bondholder has the right to cash in the bond before maturity at a specific price after a specific date.

- A. callable
- B. coupon
- C. puttable**
- D. treasury

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9. When discussing bonds, convexity relates to the _____.

- A. shape of the bond price curve with respect to interest rates**
- B. shape of the yield curve with respect to maturity
- C. slope of the yield curve with respect to liquidity premiums
- D. size of the bid-ask spread

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10. Do you think fractals are cool?

- A. Yes**
- B. No**
- C. Huh?**