1. In regard to an asset, the ____________ is defined as the process well-informed investors must pay for it in a free and competitive market.
   a. Analyst value
   b. Technical value
   c. Competitive Value
   d. Fundamental value
   e. None of the above

2. In corporate finance decision making, an extremely important rule is to choose the investment which ____________ current shareholders' wealth.
   a. minimizes
   b. maximizes
   c. provides zero change in
   d. all of the above
   e. none of the above

3. The ____________ states that in a competitive market, if two assets are equivalent, they will tend to have the same market price.
   a. Law of Real Interest Rates
   b. Law of One Price
   c. Law of Price Equivalency
   d. Law of Futures
   e. None of the above

4. If the dollar price of Swiss Francs is $0.66711 per Swiss Franc and the dollar price of French Francs is $0.16499 per French Franc, what is the Swiss Franc price of a French Franc? (i.e., SWF/FF)
   a. 1.99156 SWF/FF
   b. 4.0434 SWF/FF
   c. 0.24732 SWF/FF
   d. 6.06097 SWF/FF
   e. none of the above

5. A firm's EPS are $6 and the industry average P/E multiple is 9. What would be an estimate of the value of a share of the firm's stock?
   a. $54.00
   b. $45.00
   c. $0.67
   d. $1.50
   e. none of the above
6. The value of the asset as it appears in the financial statement is called the asset's _______________.
   a. market value of assets
   b. historical value
   c. book value
   d. expected value
   e. none of the above

7. The _______________ is the proposition that an asset's current price fully reflects all publicly available information about future economic fundamentals affecting the asset's value.
   a. Public Markets Hypothesis
   b. Efficient Markets Exchange Rates
   c. Fundamental Value Proposition
   d. Efficient Markets Hypothesis
   e. None of the above

8. What happens to the value of a four year fixed income security promising $100 per year if the market interest rate rises from 5% to 6% per year?
   a. A rise of 1% causes a drop of $4.87 in market value.
   b. A rise of 1% causes a rise of $4.87 in market value.
   c. A rise of 1% causes a drop of $8.09 in market value.
   d. A rise of 1% causes a rise of $8.09 in market value.
   e. none of the above

9. What happens to the value of a four year fixed income security promising $100 per year if the market interest rate falls from 6% to 5% per year?
   a. A fall of 1% causes a rise of $4.87 in market value.
   b. A fall of 1% causes a fall of $8.09 in market value.
   c. A fall of 1% causes a rise of $14.87 in market value.
   d. A fall of 1% causes a rise of $8.09 in market value.
   e. none of the above

10. For a 1 year pure discount bond, compute the yield if the bond's face value is $1,000 and the price is currently $900. The yield (interest rate) is ________.
    a. 11.11%
    b. 17.65%
    c. 8.5%
    d. 15.00%
    e. none of the above
11. Consider a four year pure discount bond with a face value of $1,000. If the current price is $850, compute the annualized yield of this pure discount bond.
   a. 5.57%
   b. 5.00%
   c. 4.15%
   d. 3.30%
   e. none of the above

12. A _______ obligates the issuer to make periodic payments of interest to the bondholder for the life of the bond and then to pay the face value of the bond when the bond matures.
   a. pure discount
   b. zero coupon
   c. perpetual bond
   d. coupon bond
   e. none of the above

13. If the bond's market price is lower than its face value, it is termed a
   a. par bond
   b. premium bond
   c. discount bond
   d. zero par bond
   e. none of the above

14. If a bond selling for $850 has an annual coupon payment of $80 and a face value of $1,000, what is its current yield?
   a. 8.00%
   b. 15.00%
   c. 9.41%
   d. 10.00%
   e. none of the above

15. The _______ is the discount rate that makes the present value of the bond's stream of promised cash payments equal to its price.
   a. compound rate
   b. yield to maturity
   c. par rate
   d. perpetual rate
   e. none of the above

16. Suppose you are considering buying a one year 11% coupon bond with a face value of $1,000 and a current price of $1,050. What is its yield to maturity?
   a. 10.48%
   b. 16.00%
   c. 5.71%
   d. 6.10%
   e. none of the above
17. The _______________ is the expected rate of return that investors require in order to be willing to invest in the stock.
   a. market capitalization rate
   b. risk-adjusted discount rate
   c. cost of debt
   d. a and b
   e. none of the above

18. IOU stock is expected to pay a dividend of $1.67 a year from now, and its dividends are not expected to grow in the foreseeable future. If the market capitalization rate is 7%, what is the current price of a share of IOU stock?
   a. $25.53
   b. $23.86
   c. $33.52
   d. $238.60
   e. none of the above

19. GMATS stock is currently selling for $34.50 a share. The current dividend for this stock is $1.60 and dividends are expected to grow at a constant rate of 10% per year thereafter. What must be the market capitalization rate for a share of GMATS stock?
   a. 14.17%
   b. 14.64%
   c. 15.10%
   d. 16.00%
   e. none of the above is within 0.5 of the correct answer

20. In the DDM model, if \( D_1 \) and \( k \) are held constant, what will happen to the price of a stock if the constant growth rate gets higher?
   a. the price of the stock will be higher
   b. the price of the stock will not change
   c. the price of the stock will be lower
   d. the model will reduce to zero
   e. none of the above

21. Consider a firm called SureBet Corporation. SureBet reinvests 50% of its earnings each year into new investments that earn a rate of return of 17% per year. Currently, SureBet Corporation has earnings per share of $12 and pays out 50% of this figure as dividends (or it pays out $6). Calculate the growth rate of earnings and dividends.
   a. 25.0%
   b. 20.0%
   c. 15.5%
   d. 8.5%
   e. none of the above
22. If we are considering the value of a share, what in fact adds value is

   a. growth per se
   b. growth per se and tax advantages
   c. investment opportunity that earns rates of return greater than the market capitalization rate.
   d. all of the above
   e. none of the above

23. In order to evaluate the stock of SureBet Corporation, an analyst uses the constant growth discounted dividend model. Expected earnings of $12 per share is assumed, an earnings retention rate of 70% and an expected rate of return on future investments of 17% per year are also assumed. If the market capitalization rate is 14% per year, calculate a price for a share of SureBet stock.

   a. $120.00
   b. $191.83
   c. $171.43
   d. $400.00
   e. none of the above

24. In order to evaluate the stock of Toys'R'Me, an analyst uses the constant growth discounted dividend model. Expected earnings of $14 per share is assumed, an earnings retention rate of 60% and an expected rate of return on future investments of 17% per year are also assumed. If the market capitalization rate is 15% per year, what is the implied net present value of future investments?

   a. $23.34
   b. $93.34
   c. $10.99
   d. $166.67
   e. none of the above

25. Firms with consistently high P/E multiples are therefore interpreted to have either relatively ______________ market capitalization rates or relatively ______________ present value of value added investments.

   a. low, low
   b. high, high
   c. high, low
   d. low, high
   e. none of the above
1. d
2. b
3. b
4. c
5. a
6. c
7. d
8. c
9. d
10. a
11. c
12. d
13. c
14. c
15. b
16. c
17. d
18. b
19. c
20. a
21. d
22. c
23. c
24. a
25. d