@ The quoted interest rate is by definition a simple annual interest rate, such as the EAR.

True

$ False

&

@ Only the APR or some other quoted rate should be used as the interest rate fact or for present or future value calculations.

True

$ False

&

@ To solve future value problems with multiple cash flows involves which of the following steps?

First, draw a time line to make sure that each cash flow is placed in the correct time period.

Second, calculate the future value of each cash flow for its time period.

Third, add up the future values.

$ All of the above are necessary steps.

&

@ Which one of the following steps is NOT involved in solving future value problems?

First, draw a time line to make sure that each cash flow is placed in the correct time period.

$ Second, discount each cash flow for its time period.

Third, add up the values.

All of the above are necessary steps.

&

@ To solve present value problems with multiple cash flows involves which of the following steps?

First, draw a time line to make sure that each cash flow is placed in the correct time period.

Second, calculate the present value of each cash flow for its time period.

Third, add up the present values.

$ All of the above are necessary steps.

&

@ Which one of the following steps is NOT involved in solving present value problems?

First, draw a time line to make sure that each cash flow is placed in the correct time period.

$ Second, compound each cash flow for its time period.

Third, add up the values.

All of the above are necessary steps.

&

@ Calculating the present and future values of multiple cash flows is relevant

for businesses only.

for individuals only

$ for both individuals and businesses.

none of the above .

&

@ In computing the present and future value of multiple cash flows:

$ each cash flow is discounted or compounded at the same rate.

each cash flow is discounted or compounded at a different rate.

earlier cash flows are discounted at a higher rate.

later cash flows are discounted at a higher rate.

&

@ In computing the present and future value of multiple cash flows:

earlier cash flows are discounted at a lower rate.

$ each cash flow is discounted or compounded at the same rate.

earlier cash flows are discounted at a higher rate.

none of the above .

&

@ The present value of multiple cash flows is

greater than the sum of the cash flows.

equal to the sum of all the cash flows.

$ less than the sum of the cash flows.

none of the above .

&

@ The future value of multiple cash flows is

$ greater than the sum of the cash flows.

equal to the sum of all the cash flows.

less than the sum of the cash flows

none of the above .

&

@ If your investment pays the same amount at the end of each year for a period of six years, the cash flow stream is called

perpetuity.

$ an ordinary annuity .

an annuity due.

none of the above .

@ If your investment pays the same amount at the beginning of each year for a period of 10 years, the cash flow stream is called

a perpetuity.

an ordinary annuity.

$ an annuity due .

none of the above .

&

@ If your investment pays the same amount at the end of each year forever, the cash flow stream is called

$ a perpetuity.

an ordinary annuity.

an annuity due.

none of the above .

&

@ Cash flows associated with annuities are considered to be

an uneven cash flow stream.

$ a cash flow stream of the same amount (a constant cash flow stream).

a mix of constant and uneven cash flow streams.

none of the above .

&

@ Which ONE of the following statements is true about amortisation?

Amortisation refers to the way the borrowed a mount (principal) is paid down over the life of the loan.

With an amortised loan, each loan payment contains some payment of principal and an interest payment.

A loan amortisation schedule is just a table that shows the loan balance at the beginning and end of each period, the payment made during that period, and how much of that payment represents interest and how much represents repayment of principal.

$ All of the above are true.

&

@ Which one of the following statements is NOT true about amortisation ?

Amortisation refers to the way the borrowed a mount (principal) is paid down over the life of the loan.

With an amortised loan, each loan payment contains some payment of principal and an interest payment.

$ With an amortised loan, a smaller proportion of each month's payment goes toward interest in the early periods.

A loan amortisation schedule is just a table that shows the loan balance at the beginning and end of each period, the payment made during that period, and how much of that payment represents interest and how much represents repayment of principal.

&

@ Which one of the following statements is true about a mortisation ?

$ With an amortised loan, a bigger proportion of each month 's payment goes toward interest in the early period s.

With an amortised loan, a bigger pro port ion of each month's payment goes toward interest in the later periods.

With an amortised loan, a smaller proportion of each month's payment goes toward interest in the early periods.

None of the above.

&

@ The annuity transformation method is used to transform

a present value annuity to a future value annuity.

a present value annuity to a future value annuity.

$ an ordinary annuity to an annuity due.

a perpetuity to an annuity.

&

@ A firm receives a cash flow from an investment that will increase by 10 percent annually for an in finite number of years. This cash flow stream is called

an annuity due.

$ a growing perpetuity.

an ordinary annuity.

a growing annuity.

&

@ Your investment in a small business venture will produce cash flows that increase by 15 percent every year for the next 25 years. This cash flow stream is called

an annuity due.

a growing perpetuity .

an ordinary annuity.

$ a growing annuity.

&

@ Which one of the following statement s is TRUE about the effective annual rate (EAR)?

The effective annual interest rate (EAR) is defined as the annual growth rate that takes compounding into account.

The EAR conversion formula accounts for the number of compounding periods and, thus, effectively adjusts the annualised interest rate for the time value of money.

The EAR is the true cost of borrowing and lending.

$ All of the above are true.

&

@ The true cost of borrowing is

the annual percentage rate.

$ effective annual rate.

quoted interest rate.

periodic rate.

&

@ The true cost of lending is the

annual percentage rate.

$ effective annual rate.

quoted interest rate.

none of the above .

&

@ Which one of the following statements is NOT true?

$ The APR is the appropriate rate to do present and future value calculations.

The EAR is the appropriate rate to do present and future value calculations.

The EAR is the true cost of borrowing and lending.

The EAR takes compounding into account.