

Final Exam

Graded Quiz • 30 min

Due Dec 21, 4:59 PM +09

Congratulations! You passed!

TO PASS 80% or higher

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GRADE

100%

Final Exam

LATEST SUBMISSION GRADE

100%

1.

Question 1

Why was the Yale portfolio primarily in bonds and other “safe” investments?

1 / 1 point

Yale was following the best practice advice of Joe McNay

Yale did not want the strong variation that are common in investment

Yale had too much money for other investments

Yale did not have a portfolio manager

Correct

2.

Question 2

Which of the following is NOT an example of moral hazard?

1 / 1 point

Lying about farming yields to collect insurance money.

Neglecting to replace smoke detector batteries when insured against fire.

Knowingly building a house in an area susceptible to floods

Not farming efficiently because farming insurance will cover the cost of a bad crop.

Correct

This is only an example of moral hazard if you have flood insurance and are incentivized by the insurance company's willingness to pay for flood damage. Increasing the cost of flood insurance in these areas reduces or eliminates the moral hazard.

3.

Question 3

All rational investors, seeking to manage risk by optimally diversifying across a common set of different assets:

1 / 1 point

Only focus on the mean of the overall portfolio.

Can ultimately hold different, fully diversified portfolios.

Are concerned about by the performance of the riskier assets once they have created the diversifying portfolio.

Ultimately earn the same return if they share the same level of risk-aversion.

Correct

Rational investors sharing the same level of risk-aversion hold the same optimally diversified portfolio. Hence they earn the same return: the return of the portfolio.

4.

Question 4

If you want to protect the risk consisting in the fluctuations of the value of your home, you would ideally:

1 / 1 point

Want to be long (buyer) in the market for homes in your city.

Want to stay market-neutral (neither long nor short) in the market for homes in your city.

Avoid investing in the housing market in your city.

Want to short the market for homes in your city.

Correct

As in shorting the stock market, this would allow you to buy back the asset at a lower price if the prices of homes in your city happen to collapse.

5.

Question 5

Regarding the Efficient Market Hypothesis:

1 / 1 point

The strong form states that stock prices reflect all the information that can be observed on the trading floor.

The weak form states that current market prices reflect all information that can be relevant to the valuation of the firm.

The semi-strong form states all publicly available information about a firm's prospects are reflected within the firm's stock price.

The hypothesis does not hold if asset prices reflect all -including inside- relevant information.

Correct

6.

Question 6

Nastya's makes risky investments with 25% of her portfolio and invests the rest of the portfolio in low-variance investments. This is an example of

1 / 1 point

Attention anomalies

Disjunction effect

Representativeness heuristic

Mental compartmentalization

Correct

Nastya mentally separates the portfolio into a risky portion and a non-risky portion instead of looking at the overall risk

7.

Question 7

Today, the nominal rate of interest is 6% and the inflation rate is 2%. The real rate of interest is therefore:

1 / 1 point

1%

2%

3%

4%

Correct

The real interest rate is calculated by subtracting the inflation rate from the nominal interest rate.

8.

Question 8

The potential upside of share dilution is that:

1 / 1 point

The capital received by the company after the dilution can improve the company's profitability and its stock price.

The ownership of the company becomes more concentrated.

The company will increase its dividend payments over the short to medium-term.

There is no potential upside of share dilution.

Correct

9.

Question 9

If both dividends and capital gains are taxed at the same ordinary income tax rate, some difference in the tax effect still exists because:

1 / 1 point

Dividends are immediately taxed while capital gains are deferred until the stock is sold.

Capital gains are immediately taxed while dividends are deferred until the stock is sold.

Both dividends and capital gains are theoretically taxed every year but in practice, capital gains are rarely taxed.

There is no difference: both dividends and capital gains are taxed every year.

Correct

10.

Question 10

What was the major sign that lead Professor Shiller to predict the crash of the housing market?

1 / 1 point

Housing prices had been rising for 100 years, but then suddenly started to fall.

Housing prices had been rising at a steady rate for 100 years, but then suddenly started to rise at a much higher rate.

Housing prices had been falling for 100 years, but then suddenly started to rise.

Housing prices had been relatively constant for 100 years, but then suddenly started to rise.

Correct

11.

Question 11

How does the Dodd-Frank incentivize banks to only offer mortgages which they believe will not default?

1 / 1 point

Of the mortgages that a bank initiates, at least 5% must be Qualifying Residential Mortgages (QRMs).

A bank must sell at least 5% of the Qualifying Residential Mortgages (QRMs) that it initiates.

A bank must hold at least 5% of the Qualifying Residential Mortgages (QRMs) that it initiates.

With the exception of Qualifying Residential Mortgages (QRMs), a bank must hold 5% of the mortgages that it initiates.

Correct

12.

Question 12

Which of the following is an example of tunneling?

1 / 1 point

Selling an asset far above or below its value.

Insider trading.

Telling friends inside information which helps them exploit a business opportunity.

All of the above are examples of tunneling.

Correct

13.

Question 13

What is Front Running?

1 / 1 point

A broker, after receiving a large order from a client, purchases many shares of that stock for herself first (or tells her friends to do so) knowing that this order will cause the price to go up.

A broker, after receiving a large order from a client, purchases all of the shares at the same time, causing the price of the stock to fluctuate and creating instability in the price of the stock.

A broker uses decimalization, or the fact that stocks are traded in pennies instead of 1/16ths of a dollar, to take advantage of other investors.

A broker temporarily invests a client's entire portfolio in a single investment so that the price goes up, and then sells it quickly with the higher price.

Correct

14.

Question 14

Suppose Maria invests in futures. Which of the following is true?

1 / 1 point

Maria must negotiate a contract with another individual.

Maria's margin account will be adjusted each day to account for price changes.

Maria must be an employee at a warehouse because only they have the commodities to trade.

Maria is responsible for making margin calls to ensure that she has enough money to honor the price of her futures.

Correct

By investing in a futures contract, Maria must be able to pay the price of the future contract as it fluctuates.

15.

Question 15

Which of the following correctly define backwardation and contango?

1 / 1 point

Backwardation is when futures prices are above their expected price at maturity, whereas contango is when they are below their expected price at maturity.

Backwardation is when warehouses quote a negative storage cost, whereas contango is when they quote a positive storage cost.

Backwardation is when futures prices are below their expected price at maturity, whereas contango is when they are above their expected price at maturity.

Backwardation is when warehouses quote a positive storage cost, whereas contango is when they quote a negative storage cost.

Correct

16.

Question 16

What is the theoretical reason options exist?

1 / 1 point

Companies would like people to purchase put options for their stocks, because it reduces their risk. Call options serve as the natural extension of put options.

A single stock price does not represent a single risk; it represents many risks, which matter in different ways to different people.

Companies would like people to purchase call options for their stocks, because then it reduces their risk. Put options serve as the natural extension of call options.

Options serve the same role as insurance for investors, because they are able to insure themselves against large losses for long periods of time.

Correct

In many situations, people could reduce risk through options.

17.

Question 17

Why does the put-call parity relationship only come close to holding, but not predict the exact price?

1 / 1 point

In practice, excessive amounts of arbitrage weakens the strength of the relationship.

European-style options add complexities not present in American-style options.

Transaction costs cause the prices to be slightly different from the prediction.

The put-call parity relationship is a theoretical finding which cannot be expected to hold in practice.

Correct

Transaction costs are not modeled in the put-call parity relationship.

Question 18

What was the most remembered aspect of the Glass-Steagall Act of 1933?

1 / 1 point

It officially legalized insider trading.

It inspired a series of related laws across Europe.

It specified that a single company cannot be both an investment bank and a commercial bank.

It required that every commercial bank also offer investment banking.

Correct

This act was later repealed, so this no longer holds true.

19.

Question 19

A limit buy order is an order to buy stock that is executed

1 / 1 point

When the stock can be obtained at or below a specified price.

Immediately at the best available price

Immediately, at the last traded price

At the lowest available price

Correct

20.

Question 20

Bankruptcy laws can make the government a shareholder in all businesses. Chapter 7 of the U.S. Bankruptcy Code (Liquidation) involves:

1 / 1 point

Paying off the existing debt of a firm and negotiating new debt contracts.

Terminating a firm and selling the assets based on their salvage value.

Restructuring the debt and equity side of the firm.

Restructuring only the debt side of the firm.

Correct

21.

Question 21

In the U.S., the very first benefit corporation was created:

1 / 1 point

In New York (2005).

In Illinois (2005).

In Pennsylvania (2010).

In Maryland (2010)

Correct