

Homework (chapter 14)

Due Feb 10 at 11:59pm

Points 20

Questions 20

Available until Feb 10 at 11:59pm

Time Limit None

Allowed Attempts 2

Instructions

This required homework assignment covers material from chapter 14.

Homework answers may be saved and returned to, as long as it is within the deadline. To do so, remember to save your responses before leaving the Canvas website, and do not click on the “Submit” button (or Canvas will automatically grade your assignment and you will have no way of changing your answers). If you start the quiz before the deadline but do not finish by the deadline, Canvas will submit the homework for you at the deadline.

Take the Quiz Again

Attempt History

	Attempt	Time	Score
LATEST	Attempt 1	10 minutes	20 out of 20

⚠ Correct answers will be available on Feb 11 at 12am.

Score for this attempt: **20** out of 20

Submitted Feb 5 at 5:43pm

This attempt took 10 minutes.

Question 1

1 / 1 pts

Most financial decisions involve two related elements:

- ☐ advice and consent.
- ☐ investment and taxes.
- ☒ time and risk.

- ☐ saving and consumption.

Question 2

1 / 1 pts

Suppose you put \$500 into a bank account today. Interest is paid annually and the annual interest rate is 8 percent. The future value of the \$500 after 2 years is

- ☐ \$428.67.
- ☐ \$470.00.
- ☐ \$580.00.
- ☒ \$583.20.

Question 3

1 / 1 pts

Suppose you put \$350 into a bank account today. Interest is paid annually and the annual interest rate is 6 percent. The future value of the \$350 after 4 years is

- ☐ \$414.09.
- ☐ \$434.00.
- ☒ \$441.87.
- ☐ \$481.24.

Question 4

1 / 1 pts

If the interest rate is 7.5 percent, then what is the present value of \$4,000 to be received in 6 years?

☐ \$2,420.68

☒ \$2,591.85

☐ \$2,996.33

☐ \$3,040.63

Question 5

1 / 1 pts

James offers you \$1,000 today or $\$X$ in 7 years. If the interest rate is 4.5 percent, then you would prefer to take the \$1,000 today if and only if

☐ $X < 1,045.00$.

☐ $X < 1,188.89$.

☐ $X < 1,266.67$.

☒ $X < 1,360.86$.

Question 6

1 / 1 pts

Compounding refers directly to

☐ finding the present value of a future sum of money.

☐ finding the future value of a present sum of money.



changes in the interest rate over time on a bank account or a similar savings vehicle.



interest being earned on previously-earned interest.

Question 7

1 / 1 pts

Discounting refers directly to



finding the present value of a future sum of money.



finding the future value of a present sum of money.



calculations that ignore the phenomenon of compounding for the sake of ease and simplicity.



decreases in interest rates over time, while *compounding* refers to increases in interest rates over time.

Question 8

1 / 1 pts

According to the rule of 70, if the interest rate is 5 percent, how long will it take for the value of a savings account to double?



about 3.5 years



about 6.3 years



about 12 years

- ☒ about 14 years

Question 9

1 / 1 pts

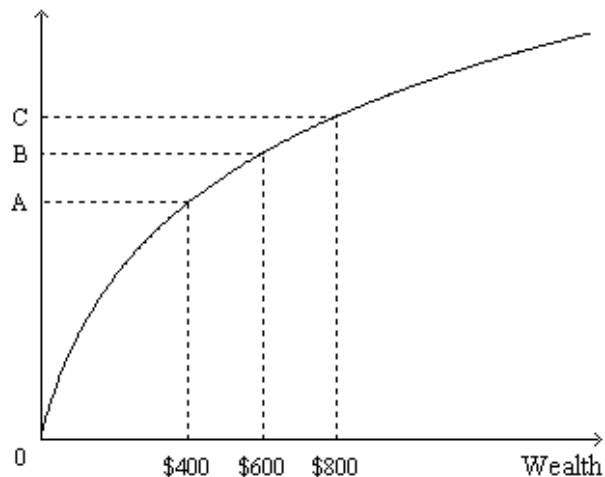
Diminishing marginal utility of wealth implies that the utility function

- ☐ has increasing slope and a person is risk averse.
- ☐ has increasing slope and a person is not risk averse.
- ☒ has decreasing slope and a person is risk averse
- ☐ has decreasing slope and a person is not risk averse.

Question 10

1 / 1 pts

Figure 27-1. The figure shows a utility function.



Refer to Figure 27-1. What is measured along the vertical axis?

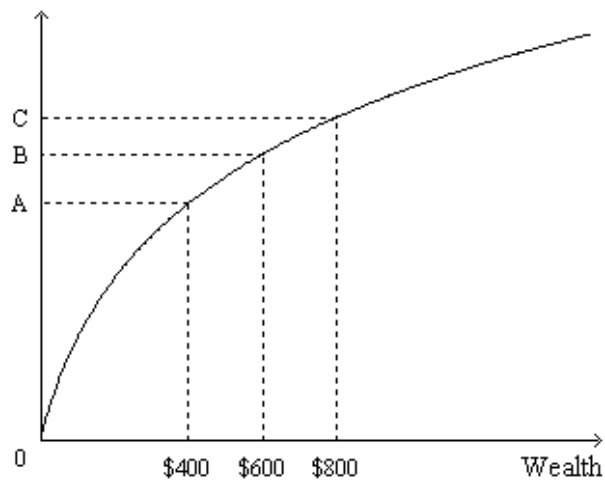
- ☐ risk aversion

- ☐ marginal utility
- ☒ utility
- ☐ the number of units of a good that can be purchased

Question 11

1 / 1 pts

Figure 27-1. The figure shows a utility function.



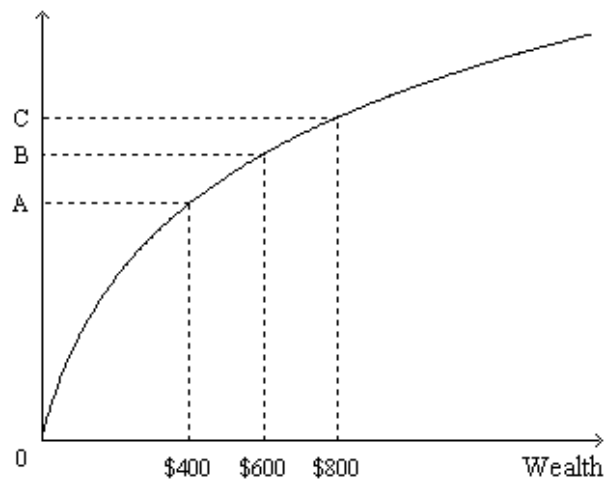
Refer to Figure 27-1. The utility function that is shown exhibits the property of diminishing

- ☐ wealth.
- ☐ utility.
- ☐ marginal wealth.
- ☒ marginal utility.

Question 12

1 / 1 pts

Figure 27-1. The figure shows a utility function.



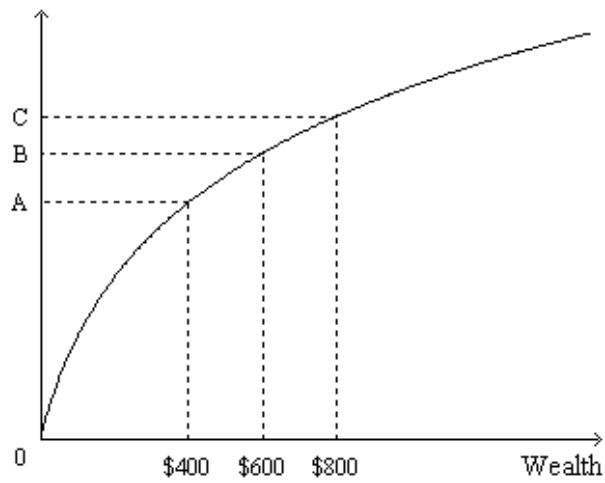
Refer to Figure 27-1. Which distance along the vertical axis represents the marginal utility of an increase in wealth from \$600 to \$800?

- ☐ the distance between the origin and point B
- ☐ the distance between the origin and point C
- ☐ the distance between point A and point C
- ☒ the distance between point B and point C

Question 13

1 / 1 pts

Figure 27-1. The figure shows a utility function.



Refer to Figure 27-1. For the person to whom this utility function applies,



the more wealth she has, the less utility she gets from an additional dollar of wealth.



the more wealth she has, the more utility she gets from an additional dollar of wealth.



her level of satisfaction will be enhanced more by an increase in wealth from \$600 to \$800 than it would be by an increase in wealth from \$400 to \$600.

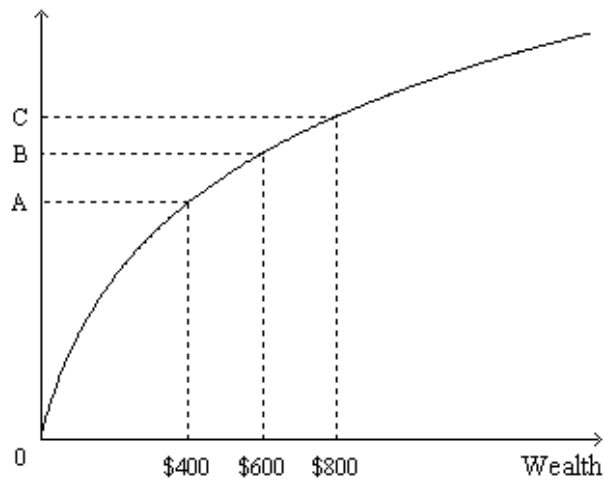


her level of satisfaction will be enhanced equally by an increase in wealth from \$600 to \$800 or by an increase in wealth from \$400 to \$600.

Question 14

1 / 1 pts

Figure 27-1. The figure shows a utility function.



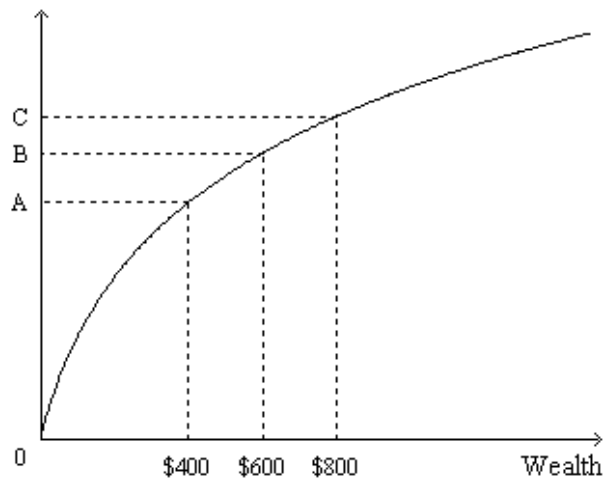
Refer to Figure 27-1. Suppose the person to whom this utility function applies begins with \$600 in wealth. Starting from there,

- ☐ she would be willing to accept a coin-flip bet that would result in her winning \$200 if the result was “heads” or losing \$200 if the result was “tails.”
- ☐ the pain of losing \$200 of her wealth would equal the pleasure of adding \$200 to her wealth.
- ☒ the pain of losing \$200 of her wealth would exceed the pleasure of adding \$200 to her wealth.
- ☐ the pleasure of adding \$200 to her wealth would exceed the pain of losing \$200 of her wealth.

Question 15

1 / 1 pts

Figure 27-1. The figure shows a utility function.



Refer to Figure 27-1. The properties exhibited by this utility function help to explain various things we observe in the economy, including

- ☐ the risk-return tradeoff.
- ☐ insurance.
- ☐ diversification.
- ☒ All of the above are correct.

Question 16

1 / 1 pts

Diversifying

- ☐ increases the standard deviation of the value of a portfolio indicating its risk has increased.
- ☐ increases the standard deviation of the value of a portfolio indicating its risk has decreased.



decreases the standard deviation of the value of a portfolio indicating its risk has increased.



decreases the standard deviation of the value of a portfolio indicating its risk has decreased.

Question 17

1 / 1 pts

When a person engages in detailed analysis of a company to determine its value, he or she is engaging in



standard deviation analysis.



informational analysis.



fundamental analysis.



efficiency analysis.

Question 18

1 / 1 pts

If the *efficient markets hypothesis* is correct, then



the number of shares of stock offered for sale exceeds the number of shares of stock that people want to buy.



the stock market is informationally efficient.



stock prices never follow a random walk.

- ☐ All of the above are correct.

Question 19

1 / 1 pts

The performance of index funds

- ☐ usually falls short of the performance of actively-managed funds.
- ☐ provides evidence in support of the notion that stock prices do not depend upon supply and demand.
- ☒ provides evidence in support of the efficient markets hypothesis.
- ☐ provides evidence in support of the notion that stock-market participants are irrational.

Question 20

1 / 1 pts

Fundamental analysis is

- ☐ the study of the relation between risk and return of stock portfolios.
- ☐ the determination of the allocation of savings between stocks and bonds based on a person's degree of risk aversion.
- ☒ the study of a company's accounting statements and future prospects to determine its value.



a method used to determine how adding stocks to a portfolio will change the risk of the portfolio.

Quiz Score: **20** out of 20