Question #1 of 49

Question ID: 1462881

Which type of equity market index is *most likely* to be adjusted for free float?

A) Price weighted.

B) Value weighted.

C) Fundamental weighted.

Explanation

Value-weighted (market-capitalization weighted) index weights may be based on the total value of shares available for investment (the market float) rather than on all the outstanding shares of a firm.

(Module 37.1, LOS 37.d)

Question #2 of 49

Question ID: 1458141

The providers of the Smith 30 Stock Index remove Jones Company from the index because it has been acquired by another firm, and replace it with Johnson Company. This change in the index is *best* described as an example of:

A) reconstitution.

B) rebalancing.

C) redefinition.

Explanation

Reconstitution refers to changing the securities that make up an index. Reconstitution of an index is required if one of its constituent securities goes out of existence (for example, a maturing bond or an expiring futures contract) or no longer meets the requirements to be included in the index.

(Module 37.2, LOS 37.f)

Question #3 of 49

Question ID: 1458119

Six months after inception, the price return and the total return of an equal-weighted index will be different if:

A) capital gains exceed capital losses or vice versa.

B) constituent securities have paid dividends.

C) market prices have not changed.

Explanation

The difference between a price and total return index is that cash distributions are included in a total return index. The two will differ when the constituent securities make cash distributions over the period. Otherwise, the two versions will be the same.

(Module 37.1, LOS 37.b)

Question #4 of 49

Question ID: 1458114

In one year, a security market index has the following quarterly price returns:

First quarter	3%
Second quarter	4%
Third quarter	-2%
Fourth quarter	5%

The price return for the year is *closest to*:

A) 10.00%.

B) 10.2%.

C) 9.9%.

Explanation

Return for the year = (1.03)(1.04)(0.98)(1.05) − 1 = 10.23%.

(Module 37.1, LOS 37.b)

Question #5 of 49

Question ID: 1458126

With regard to stock market indexes, it is *least likely* that:

A) buying 100 shares of each stock in a price-weighted index will result in a portfolio that tracks the index quite well. ✗

B) the use of price weighting versus market value weighting produces a downward bias on the index. ✗

C) a market-cap weighted index must be adjusted for stock splits but not for dividends. ✓

Explanation

A price-weighted index needs to be adjusted for stock splits, but a market-cap weighted index does not. Neither type of index considers dividend income unless it is designed as a total return index.

Price weighting produces a downward bias compared to market weighting because firms that split their stocks (which tend to be the more successful firms) decrease in weight within a price-weighted index. The returns on a price-weighted index can be matched by purchasing a portfolio with an equal number of shares of each stock in the index.

(Module 37.1, LOS 37.d)

Question #6 of 49

Question ID: 1458154

Which of the following is NOT a reason bond market indexes are more difficult to create than stock market indexes?

A) There is a lack of continuous trade data available for bonds. ✗

B) The universe of bonds is much broader than that of stocks. ✗

C) Bond deviations tend to be relatively constant. ✓

Explanation

Bond prices are quite volatile as measured by the bond's duration.

(Module 37.2, LOS 37.j)

Question #7 of 49

Question ID: 1458121

The target market for a security market index is *best* described as the:

A) investors who will follow the index. ✗

B) market or segment the index is designed to measure. ✓

C) portfolio managers who will track the index. ✗

Explanation

The target market of an index is the securities market or portion of a securities market that the index will be designed to represent. The securities from the target market that are included in the index are called its constituent securities.

(Module 37.1, LOS 37.c)

Question #8 of 49

Question ID: 1458139

Compared to a value-weighted index, the type of index *most likely* to have a value tilt is a(n):

A) equal-weighted index. ✗

B) fundamental-weighted index. ✓

C) price-weighted index. ✗

Explanation

An index based on company fundamentals, for example on earnings or book value, will assign more weight to stocks with low P/E or price-to-book ratios compared to a value-weighted index. This is similar to managing an equity portfolio using a value strategy.

(Module 37.1, LOS 37.e)

Question #9 of 49

Question ID: 1462882

A high yield bond fund states that through active management, the fund's return has outperformed an index of Treasury securities by 4% on average over the past five years. As a performance benchmark for this fund, the index chosen is:

A) inappropriate, because the index return does not reflect active management. ✗

B) inappropriate, because the index does not reflect the actual bonds in which the fund invests. ✓

C) appropriate. ✗

Explanation

Security market indexes may be used as benchmarks for the performance of active managers, but the index chosen should represent the universe of securities from which the manager is choosing. Here, an index of high yield bonds would be a more appropriate benchmark.

(Module 37.2, LOS 37.f)

Question #10 of 49

Question ID: 1458145

Contreras Fund is a mutual fund that invests in value stocks. The *most appropriate* type of equity index to use as a benchmark of manager performance for Contreras Fund is a:

A) style index.

B) broad market index.

C) sector index.

Explanation

The index selected as a benchmark for manager performance should represent the investment universe from which the manager actually selects stocks. If the manager only invests in value stocks, then the most appropriate index is a style index that seeks to represent the returns from a value strategy. A sector index is appropriate for managers who invest in specific sectors (e.g., technology stocks, emerging market bonds).

(Module 37.2, LOS 37.g)

Question #11 of 49

Question ID: 1458125

Which of the following statements about indexes is CORRECT?

A) A price-weighted index assumes an equal number of shares (one of each stock) represented in the index.

B) A market weighted series must adjust the denominator to reflect stock splits in the sample over time.

C) An equal weighted index assumes a proportionate market value investment in each company in the index.

Explanation

The descriptions of value weighted and unweighted indexes are switched. The denominator of a price-weighted index must be adjusted to reflect stock splits and changes in the sample over time. A market value-weighted series assumes you make a proportionate market value investment in each company in the index.

(Module 37.1, LOS 37.d)

Question #12 of 49

Question ID: 1458133

The table below lists information on price per share and shares outstanding for three stocks.

	As of Beginning of Year		As of End of Year	
Stock	**Price per Share ($)**	**# Shares Outstanding**	**Price per Share ($)**	**# shares Outstanding**
Mertz	10	10,000	15	10,000
Norton	50	5,000	50	5,000
Rubble	100	500	85	500

At the beginning of the year, the value of a market-cap weighted index of these three stocks was 100. The index value at year-end is *closest to:*

A) 44.3. ✗

B) 93.8. ✗

C) 110.6. ✓

Explanation

Market-cap weighted index = (ending market capitalization / beginning market capitalization) × beginning index value.

Beginning market capitalization = (10)(10,000) + (50)(5,000) + (100)(500) = 400,000

Ending market capitalization = (15)(10,000) + (50)(5,000) + (85)(500) = 442,500

Index value = (442,500 / 400,000) × 100 = 110.625

(Module 37.1, LOS 37.e)

Question #13 of 49

Question ID: 1462883

Creating a bond market index is more difficult than constructing a stock market index due to:

A) a narrower universe of bonds versus stocks. ✗

B) lack of continuous trade data for bonds. ✓

C) lower price volatility of bonds versus stocks. ✗

Explanation

It is difficult to price individual bond issues in an index because continuous trade data may not exist for some bonds. In addition, it is challenging to create a bond market index because the bond universe is much broader, and the price volatility of a bond (i.e., its duration) changes over time as the bond approaches maturity.

(Module 37.2, LOS 37.j)

Question #14 of 49

Question ID: 1458117

An index provider maintains a price index and a total return index for the same 40 stocks. Assuming both indexes begin the year with the same value, the total return index at the end of the year will *least likely* be:

A) equal to the price index if the constituent stocks do not pay dividends. ✗

B) greater than the price index. ✗

C) less than the price index if the price index increases and greater than the price index if the price index decreases. ✓

Explanation

A price index only includes the prices of the constituent securities in the calculation of the index value. A total return index includes the prices and the dividends paid in the calculation of the index value. If all of the constituents are non-dividend paying stocks, then the total return index will be the same as the price index at the end of the year. Otherwise the total return index will be greater than the price index.

(Module 37.1, LOS 37.b)

Question #15 of 49

Question ID: 1458147

An equity index comprised of value stocks, identified by their price-to-earnings ratios, is *best* described as a:

A) sector index.

B) style index.

C) fundamental weighted index.

Explanation

An index of value stocks is an example of a style index. Sector indexes measure the performance of securities in specific industries or industry sectors. Fundamental weighting is used to weight indexes by a factor such as the size of the firms or economies represented in the index.

(Module 37.2, LOS 37.h)

Question #16 of 49

Question ID: 1458123

Assume a stock index consists of many firms who have recently split their stock. Which of the following weighting schemes will see a bias due to the impact of stock splits?

A) Market value-weighted series.

B) Price-weighted series.

C) Unweighted price series.

Explanation

Firms that split their stock price will have the identical weight before and after the split in both the unweighted and the market value-weighted series. However, in the price-weighted series, large successful firms will lose weight within the index due to simply splitting their stock. This creates a downward bias in a price-weighted series. Standard and Poor's 500 Index is a market value-weighted index.

(Module 37.1, LOS 37.d)

Question #17 of 49

Question ID: 1458113

Which of the following statements about a security market index is *most accurate*?

A) If an index increases by 5% in one year, the market return for the year is 5%.

B) An index must use actual prices from market transactions.

C) An index may reflect dividends paid by its constituent securities.

Explanation

An index that is designed to measure total return will include dividends in its calculation. Some security market indices use estimated prices when actual prices are not available. The percent change in a security market index is the return on a portfolio of its constituent securities. Whether this represents an estimate of the market return depends on the nature and purpose of the index (for example, a security market index may be designed to represent a particular industry or asset class).

(Module 37.1, LOS 37.a)

Question #18 of 49

Question ID: 1458159

Which of the following statements is *most accurate* regarding commodity indexes?

A) Commodity indexes are based on spot prices, while most investors purchase futures contracts.

B) The return to commodity indexes consists of two major components: the risk-free rate of return and the roll yield.

C) Weighting methodology varies among index providers and leads to differences in index risk and returns.

Explanation

Weighting methodology is a major issue for commodity indexes. Several different methodologies are used, including equal weighting and global production values. Differences in weighting cause differing exposures for the indexes and lead to different risk and return profiles.

Commodity indexes represent futures contracts on commodities, not the actual spot prices of commodities. Commodity index returns come from three sources: the risk-free rate of return, changes in futures prices, and the roll yield.

(Module 37.2, LOS 37.k)

Question #19 of 49

Question ID: 1458120

The first step in developing a security market index is choosing the index's:

A) constituent securities.

B) target market.

C) weighting method.

Explanation

The first decision that must be made is choosing the target market the index will represent. Only then can the index provider determine which constituent securities should be included and which weighting scheme is most appropriate to measure the target market's returns.

(Module 37.1, LOS 37.c)

Question #20 of 49

Question ID: 1458146

An analyst using the capital asset pricing model is *most likely* to use a security market index as a proxy for:

A) the market return.

B) beta.

C) the risk-free rate.

Explanation

The return on a security market index can be used as a proxy for the market return in a pricing model such as the CAPM.

(Module 37.2, LOS 37.g)

Question #21 of 49

Question ID: 1458116

The value of a total return index:

A) is determined by the price changes of the securities that constitute the index.

B) may increase at either a faster or slower rate than the value of a price return index with the same constituent securities and weights.

C) can be calculated by multiplying the beginning value by the geometrically linked series of periodic total returns.

Explanation

The value of a total return index can be calculated by multiplying the beginning value by the geometrically linked series of index total returns. The value of a total return index includes both the price changes of the securities that constitute the index and any cash flows from the securities (dividends, interest, and other distributions). A total return index cannot increase at a slower rate (or decrease at a faster rate) than an otherwise identical price return index because cash flows from the securities cannot be negative.

(Module 37.1, LOS 37.b)

Question #22 of 49

Question ID: 1458150

Which of the following sets of indexes are price-weighted?

A) Dow Jones Industrial Average and Nikkei Dow Jones Stock Market Average. ✓

B) Dow Jones World Stock Index and Russell Index. ✗

C) S&P 500 Index and Dow Jones Industrial Average. ✗

Explanation

The Dow Jones World Stock Index, the Russell Index, the S&P 500 Index, and Morgan Stanley Capital International Index are all market-value weighted. Only the Dow Jones Industrial Average and the Nikkei Dow Jones Stock Market Averages are price-weighted.

(Module 37.2, LOS 37.i)

Question #23 of 49

Question ID: 1458134

An index was recently begun with the following two stocks:

- Company A – 50 shares valued at $2 each.
- Company B – 10 shares valued at $10 each.

Given that the value-weighted index was originally set at 100 and Company A's stock is currently selling for $4 per share while Company B's stock is still at $10 per share, what is the current value of the price-weighted index and the market-cap-weighted index?

	Price-weighted	Market-cap-weighted	
A)	7	150	✓
B)	7	300	✗

C) 8 150

Explanation

Price weight = [(4) + (10)] / 2 = 7

Market-cap weight = [(4)(50) + (10)(10)] / [(2)(50) + (10)(10)](100) = 150

(Module 37.1, LOS 37.e)

Question #24 of 49

Question ID: 1458149

Which of the following indexes is a price weighted index?

A) The New York Stock Exchange Index.

B) The Nikkei Dow Index.

C) The Standard and Poor's Index.

Explanation

The Nikkei Dow Index is a price-weighted index. The other two are market value-weighted indexes.

(Module 37.2, LOS 37.i)

Question #25 of 49

Question ID: 1458138

The table below lists information on price per share and shares outstanding for three companies–Lair Enterprises, Kurlew, Inc., and Mowe, Ltd.

	As of Beginning of Year		As of End of Year	
Stock	**Price Per Share ($)**	**# Shares Outstanding**	**Price Per Share ($)**	**# Shares Outstanding**
Lair	15	10,000	10	10,000
Kurlew	45	5,000	60	5,000
Mowe	90	500	110	500

Assume that at the beginning of the year, the value of the market-weighted index was 100. The one-year return on the market-cap weighted index is *closest* to:

A) 13.33%. ✗

B) 30.0%. ✗

C) 8.33%. ✓

Explanation

Expand the table as follows:

	As of Beginning of Year 1			As of End of Year 1		
Stock	**Price Per Share (in $)**	**# Shares Outstanding**	**Market Capitalization (in $)**	**Price Per Share (in $)**	**# Shares Outstanding**	**Market Capitalization (in $)**
Lair	15	10,000	150,000	10	10,000	100,000
Kurlew	45	5,000	225,000	60	5,000	300,000
Mowe	90	500	45,000	110	500	55,000
Total	*150*		*420,000*	*180*		*455,000*

First, we will calculate the year-end market-cap weighted index value, then we will calculate the return percentage.

Value of market-cap weighted index = [(market capitalization$_{\text{year-end}}$) / (market capitalization$_{\text{beginning of year}}$)] × Beginning index value

= (455,000 / 420,000) × 100 = 108.33

One-Year Return = [(Index value$_{\text{year-end}}$ / Index value$_{\text{beginning of year}}$) − 1] × 100

= [(108.33 / 100) − 1] × 100 = **8.33%**.

(Module 37.1, LOS 37.e)

Question #26 of 49

Question ID: 1458153

Which of the following statements regarding bond market indexes is *least accurate*?

A) The bond universe is more stable than the stock universe. ✓

B) There are more bond issues than stocks. ✗

C) Unlike stocks, bonds lack continuous price trading data. ✗

Explanation

One reason why the creation of a bond index is more difficult than a stock index is due to the fact that the universe of bonds is constantly changing because of numerous new issues, bond maturities, calls, and bond sinking funds.

(Module 37.2, LOS 37.j)

Question #27 of 49

Question ID: 1458135

What is the price-weighted index of the following three stocks?

As of December 31, 2001		
Company	**Stock Price**	**Shares Outstanding**
A	$50	10,000
B	$35	20,000
C	$110	30,000

A) 80.

B) 75.

C) 65.

Explanation

The price-weighted index equals [(50 + 35 + 110) / 3] = 65.

(Module 37.1, LOS 37.e)

Question #28 of 49

Question ID: 1458155

Ken Miller, CFA, wants to compare the returns on government agency bonds to the returns on corporate bonds. Peg Egan, CFA, wants to compare the returns on high yield bonds in developed markets to the returns on investment grade bonds in emerging markets. Which of these analysts is *most likely* able to use bond indexes for their analysis?

A) Both of these analysts.

B) Neither of these analysts.

C) Only one of these analysts.

Explanation

Because of the wide universe of bonds that trade in financial markets, indexes are available (or can be constructed) based on virtually any feature or classification of bonds.

(Module 37.2, LOS 37.j)

Question #29 of 49

Question ID: 1458115

The measure of return on a security market index that includes any dividends or interest paid by the securities in the index is known as the:

A) price return. ✗

B) total return. ✓

C) cash flow return. ✗

Explanation

The total return on a security market index includes cash flows from the securities (dividends and interest) as well as price changes. Price return only accounts for changes in the price of the security. Cash flow return (or yield) refers to the internal rate of return of a portfolio.

(Module 37.1, LOS 37.b)

Question #30 of 49

Question ID: 1458131

The type of index weighting that produces a portfolio similar to that of a momentum strategy is an index with weights that are:

A) based on fundamentals. ✗

B) based on market capitalization. ✓

C) equal. ✗

Explanation

An index based on market capitalization (value-weighted index) will put more weight over time on the stocks that have increased the most (and less weight on stocks that have decreased the most) in value, which is similar to a momentum strategy that invests heavily in stocks that have increased the most in value over the recent past.

(Module 37.1, LOS 37.d)

Question #31 of 49

Question ID: 1458140

Reconstitution of an index refers to:

A) removing some securities from the index and adding others.

B) changing the methodology used to calculate the value of the index.

C) adjusting the weights of the securities that constitute the index.

Explanation

Reconstitution begins with evaluating the securities in an index against the index's criteria. Securities that are no longer representative of the index are removed and replaced with different securities that do meet the criteria. Adjusting the weights of the securities that constitute an index is termed rebalancing.

(Module 37.2, LOS 37.f)

Question #32 of 49

Question ID: 1462879

Compared to S&P 500 index weighting, an equities index that is weighted based on a fundamental factor, such as earnings, will *most likely*:

A) have a value tilt.

B) have a momentum tilt.

C) overweight firms with high EPS.

Explanation

Compared to the S&P 500 index, which is market cap weighted, an index that is weighted based on fundamentals will have a value tilt. Firms that have a higher earnings weight than market cap weight will be those with higher earnings yields. Weights are based on firm earnings, not earnings per share.

(Module 37.1, LOS 37.d)

Question #33 of 49

Question ID: 1458152

Which of the following equity indexes is an example of a market capitalization weighted index?

A) Dow Jones Industrial Average.

B) MSCI All Country World Index.

C) Nikkei Stock Average.

Explanation

The MSCI All Country World Index is a market capitalization weighted index. The Dow Jones Industrial Average and the Nikkei Stock Average are price-weighted indexes.

(Module 37.2, LOS 37.i)

Question #34 of 49

Question ID: 1458142

When a security is added to a widely followed market index, the security's price is *most likely* to:

A) be unaffected.

B) decrease.

C) increase.

Explanation

Adding a security to a market index typically causes an increase in that security's price as portfolio managers who track the index purchase the security.

(Module 37.2, LOS 37.f)

Question #35 of 49

Question ID: 1458151

Equal weighting is the most common weighting methodology for indexes of which of the following types of assets?

A) Equities.

B) Fixed income securities.

C) Hedge funds.

Explanation

Most hedge fund indexes are equal-weighted. Equity and fixed income indexes are predominately market capitalization weighted.

(Module 37.2, LOS 37.i)

Question #36 of 49

Question ID: 1462878

Which type of stock index must be adjusted for stock splits?

A) Market capitalization weighted index. ✗

B) Equal weighted index. ✗

C) Price weighted index. ✓

Explanation

When computing any price-weighted index, the denominator must be adjusted to take stock splits into account.

(Module 37.1, LOS 37.d)

Question #37 of 49

Question ID: 1458144

The *most* appropriate benchmark for measuring the relative performance of an investment manager is:

A) an index that matches the manager's investment approach. ✓

B) the risk-adjusted return on the market portfolio. ✗

C) a broad market index. ✗

Explanation

An index chosen as a benchmark for an investment manager's performance should include securities in the manager's investment universe. For example, the performance of an emerging market bond fund manager should be measured relative to the performance of an emerging market bond index.

(Module 37.2, LOS 37.g)

Question #38 of 49

Question ID: 1458156

Which of the following statements regarding fixed income indexes is *most accurate*?

A) Because some fixed income securities are illiquid, indexes may include estimates of value. ✓

B) Compared to stock indexes, turnover is typically lower in fixed income indexes. ✗

C) It is typically easier for portfolio managers to replicate a fixed income index than an equity index. ✗

Explanation

Because some fixed income securities are illiquid, a lack of recent trade prices may result in indexes having to estimate values. Unlike stocks, bonds mature and must be replaced in fixed income indexes. As a result turnover is higher in fixed income indexes. Illiquidity, transaction costs, and high turnover make it more expensive and difficult for a portfolio manager to replicate a fixed income index than a stock index.

(Module 37.2, LOS 37.j)

Question #39 of 49

Question ID: 1458158

Commodity price indexes are based on the prices of:

A) commodities. ✗

B) futures contracts. ✓

C) real assets such as grains, oil, and precious metals. ✗

Explanation

The constituent securities of commodity price indexes are commodity futures contracts. As a result, the return on a commodity index can be different than the returns from holding the constituent commodities themselves.

(Module 37.2, LOS 37.k)

Question #40 of 49

Question ID: 1458136

What is the market-cap weighted index of the following three stocks assuming the beginning index value is 100 and a base value of $150,000?

As of December 31		
Company	**Stock Price**	**Shares Outstanding**
X	$1	5,000
Y	$20	2,500
Z	$60	1,000

A) 30.

B) 100.

C) 77.

Explanation

The market-cap weighted index = [(($1)(5,000) + ($20)(2,500) + ($60)(1,000))/$150,000](100)

= ($115,000/$150,000)(100)

= (0.767)(100)

= 76.67 or 77

(Module 37.1, LOS 37.e)

Question #41 of 49

Question ID: 1462880

The type of securities market index that has a bias toward value stocks is an index with weights based on:

A) earnings.

B) security prices.

C) market capitalization.

Explanation

Fundamental-weighted indexes, such as those weighted on earnings, dividends, or book values, tend to weight value stocks more heavily than growth stocks.

(Module 37.1, LOS 37.d)

Question #42 of 49

Question ID: 1458112

When using a security market index to represent a market's performance, the performance of that market over a period of time is *best* represented by:

A) the index value.

B) the change in the index value.

C) the percent change in the index value.

Explanation

Percentage changes in the value of a security market index over time represent the performance of the market, segment, or asset class from which the securities are chosen.

(Module 37.1, LOS 37.a)

Question #43 of 49

Question ID: 1458122

Which of the following is *least likely* required when defining a security market index? The:

A) number of securities in the index.

B) target market the index will represent.

C) weighting method for the index.

Explanation

A market index does not necessarily have to consist of a fixed number of securities. For example, some indices are defined to include all the stocks that trade on a certain exchange, a number that can vary over time.

(Module 37.1, LOS 37.c)

Question #44 of 49

Question ID: 1458118

The value of a security market index at the end of December is 1,200. The index returns for the next six months are:

Month	Return
January	3.89%
February	8.76%
March	−4.74%
April	6.88%
May	−5.39%
June	−8.12%

The index value at the end of June is *closest to*:

A) 1,186.

B) 1,214.

C) 1,200.

Explanation

The index value at the end of June is

$$1{,}200(1.0389)(1.0876)(0.9526)(1.0688)(0.9461)(0.9188) = 1{,}200.$$

Note that the compound rate of return is

$$(1.0389)(1.0876)(0.9526)(1.0688)(0.9461)(0.9188) - 1 = 0.$$

(Module 37.1, LOS 37.b)

Question #45 of 49

Question ID: 1458160

Voluntary reporting of performance by hedge fund managers leads to:

A) a downward bias in hedge fund index returns.

B) an upward bias in hedge fund index returns.

C) no appreciable bias in hedge fund index returns.

Explanation

Empirical studies have shown that since hedge fund managers have the option to report performance results only funds with good results will report. Since funds with poor performance do not report their results, the results of hedge fund indexes will be biased upwards.

(Module 37.2, LOS 37.k)

Question #46 of 49

Question ID: 1458132

James Investments is calculating an equally weighted index on a four stock portfolio.

Stock	Number of Shares	Initial Cost	Current Cost
W	100	5.00	5.00
X	1,000	10.00	12.50
Y	500	7.50	10.00
Z	1500	5.00	8.00

If the initial index value is 100, the current index is *closest* to:

A) 129.5. ✓

B) 142.6. ✗

C) 137.9. ✗

Explanation

First calculate the return relatives and then find the mean of the relatives. The number of shares is irrelevant in this question.

5/5 = 1

12.5/10 = 1.25

10/7.50 = 1.33

8/5 = 1.60

(1 + 1.25 + 1.33 + 1.60) / 4 = 1.295

100 × 1.295 = 129.5

(Module 37.1, LOS 37.e)

Question #47 of 49

Question ID: 1458137

Use the data below to determine which of the statements is *most* accurate?

As of December 31		
Company	**Stock Price**	**Shares Outstanding**
A	$25	20,000
B	$50	20,000
C	$100	10,000

A) For a given percentage change in the stock price, Company A will have a greater impact on the market-cap weighted index than Companies B or C.

B) For a given percentage change in the stock price, Company B will have less of an impact on the market-cap weighted index as Company C.

C) A 100% increase in the stock price of Company A will have a smaller impact on the price-weighted index than a 100% increase in the stock price of Company C.

Explanation

A 100% change in the stock price of Company C will have a larger impact than a 100% change in either stocks A or B on the price-weighted index. A price-weighted index adds together the market price of each stock in the index and then divides this total by the number of stocks in the index. The price-weighted index assumes you purchase one share of each stock represented in the index. The price-weighted index is influenced most by given percentage changes in the higher priced stocks.

(Module 37.1, LOS 37.e)

Question #48 of 49

Question ID: 1458148

The Top Banking Index contains stocks in the finance industry that represent more than 90% of the total market capitalization for the finance industry. The index is *best* described as a:

A) broad market index.

B) sector index.

C) style index.

Explanation

A sector index measures the returns for an industry sector such as financials. Style indexes measure the returns to strategies that are differentiated by market capitalization and by value or growth. A broad market index typically consists of constituent securities that represent 90% or more of the total market capitalization for a given market.

(Module 37.2, LOS 37.h)

Question #49 of 49

Question ID: 1458124

Which of the following statements *best* describes the investment assumption used to calculate an equal weighted price indicator series?

A) A proportionate market value investment is made for each stock in the index.

B) An equal dollar investment is made in each stock in the index.

C) An equal number of shares of each stock are used in the index.

Explanation

An equal weighted price indicator series assumes that an equal dollar investment is made in each stock in the index. All stocks carry equal weight regardless of their price or market value.

(Module 37.1, LOS 37.d)