



Quizz

- a) *Primary and Secondary Market,*
- b) *Margin trading and short sale*
- c) *Short selling and leverage transaction?*
- d) *Open-ended and Closed ended funds?*
- e) *Weak-form and Strong-form of EMH?*
- f) *European and American options*
- g) *Initial Public Offering and Private Placement*
- h) *Money Market vs. Equity market*
- i) *Risk premium (excess return) vs. risk free rate*
- j) *Fixed and floating rate bond*
- k) *Treasury bill and treasury note*
- l) *Ordinary and preferred shares*
- m) *Margin account and margin call*
- n) *Government and commercial paper,*
- o) *Yield to Maturity Return and Holding-Period Return*
- p) *Active and passive management,*
- q) *Market Order and Limit Order,*
- r) *ROE and P/E,*
- s) *Stop loss sell and stop loss buy order,*
- t) *Zero-coupon bond and convertible bonds,*
- u) *Fundamental and Technical analysis*
- v) *Payout ratio and plowback ratio,*

Please comment the following statement. Short selling and short Futures transactions has no real difference, as both has the same cash flow amount.

Calculations

1. A bond pays a semiannual coupon, and the last coupon was paid 61 days ago. If the annual coupon payment is \$5, what is the accrued interest? (Assume 182 days in the 6-month period.) If the bond has a net price of 975 what will be the invoice price?

$$\text{Accr. Int.} = (5/2) \times (61/182) = \$0,838$$

$$\text{Invoice price} = \text{net price} + \text{accr. interest} = 975 + 0,838 = \$975,838$$

2. You write (sell) one European Beyond Meet August 300 put option contract (equalling 100 shares) for a premium of \$7 shares. You hold the option until the expiration date, when Beyond Meet stock sells for \$290 per share.

- a) How much is your realized profit/loss on the transaction?
- b) What is the maximum profit and loss that you can realize on this position?
- c) How much is the realized profit/loss on of your counterparty and why?

Put premium +\$7, loss on the option market price-exercise price ($320-330 = -\$10$)... realized loss is $(-10+7)*100=300$

3. A put on Sanders stock with a strike price of \$35 is priced at \$2 per share while a call with a strike price of \$35 is priced at \$3.50. The maximum per share loss to the writer of an put is _____ and the maximum per share gain to the writer of an call is _____.



Maximum per share loss to put writer = $(35 - 0) + 2 = 33.00$ if stock price is \$0 at expiration.
Maximum per share gain to call writer = 3.50 if stock price is below \$40 at expiration.

4. You purchased a share of stock for 550. One year later you received \$20.25 as dividend and sold the share for 535. What was the holding-period return?

$$\text{HPR} = (535 + 20.25 - 550) / 550 = 0.0095 = 0.95\%$$

5. Slack stock dividend at the end of the year is expected to be \$14.5, and it is expected to grow at 15% per year forever. If the required rate of return on Slack stock is 19% per year, what is its intrinsic value?

If Snap's current market price is equal to the intrinsic value, what is next year's expected price?

If an investor were buy Snap stock now and sell it after receiving the \$4.5 dividend a year now, what is the expected capital gain (i.e., price appreciation) in percentage terms? What is the dividend yield, and what would be the holding-period return?

- a) $D_1 / (k - g) = \$14.5 / (0.19 - 0.15) = \362.5
 b) $P_1 = P_0(1 + g) = \$362.5(1.15) = \416.875
 c) The expected capital gain equals $\$416.875 - \$362.5 = \$54.375$, for a percentage gain of 15%. The dividend yield is $D_1 / P_0 = \$14.5 / \$362.5 = 0.04 = 4\%$, for a holding-period return of $4\% + 15\% = 19\%$.
6. Compute the duration of an 8%, 5-year corporate bond with a par value of \$1,000 and yield to maturity of 10%. In case of 2% fall of yield to maturity what would be the new duration and price of the bond?

Time	CF	PV(CF) @ 10%	w_t	$t \times w_t$
1	\$80	\$72.73	0.0786935	0.078693477
2	\$80	\$66.12	0.0715395	0.143079048
3	\$80	\$60.11	0.0650359	0.195107793
4	\$80	\$54.64	0.0591236	0.236494295
5	\$1,080	\$670.60	0.7256075	3.628037474
		\$924.18	1.00	4.28

- **Connection of Risk and return**
- **Main financial market asset classes and example for instruments/products**
- **IPO process and IPO issue price valuation challenges**
- **What is the rationale behind the mutual fund investment**
- **Comparison of Mutual fund differences and its benefits/drawback**
- **Efficient Market Hypothesis**
- **Comparison and use of fundamental and technical analysis**
- **Benefits of professional investment managers**
- **Options different types, characteristics, benefits**
- **Equity evaluation methods**
- **Bond valuation**
- **Financial Ratios**
- **Duration and its importance** =