1. The difference between mutual funds and Exchange traded funds (ETFs) is...

   a) ETFs shares are traded on exchanges all the time but mutual funds shares can be only traded at the end of the day when their net asset value is calculated.

      Yes, that is correct. ETFs can be traded throughout the day just like any other stock. Mutual funds can be bought or sold only at the end of the day when their NAV is calculated.

   b) There is more variety of shares in mutual funds than on ETF's.

      No, that is not correct.

   c) ETFs can be traded throughout the day just like any other stock. Mutual funds can be bought or sold only at the end of the day when their NAV is calculated.

   d) None of the above.

      No, that is not correct. ETFs can be traded throughout the day just like any other stock. Mutual funds can be bought or sold only at the end of the day when their NAV is calculated.

   Answer:

   The correct answer is **a**.

2. Suppose that you expect SugarCane stock price to decline. So you decide to ask your broker to short sell 2000 shares. The current market price is $40. The proceeds from the short sale $80,000 is credited into your account. However, a few days later the market price of the stock jumps to $80 per share and your broker asks you close out your position immediately. What is your profit or loss from this transaction?

   a) -60,000
   b) 60,000
   c) -80,000
   d) 80,000

   Answer:

   The correct answer is **c**.

   The proceeds from the short selling is $40 x 2000 = 80,000. You will have to cover the short position buying 2000 shares at $80 each share: $80 x 2000 = 160,000. The loss from this transaction is the difference between 80,000 and 160,000, which is -$80,000.

3. An investor has an initial margin requirement of 50% on his margin account and a maintenance margin requirement of 25%. The investor short sold 1,000 shares at $ 40 per share. What is the maximum price that the share can reach in the market before the investor receives a margin call?

   Answer:

   The correct answer is **48**.

   Think about the proceeds from the short sale and how much collateral the investor has had to put up to meet the initial margin requirement. Think about the short margin ratio. What would the price have to be for this ratio to fall below the maintenance margin requirement?

   The proceeds from the short sale are 1000x$40 = $40,000.

   An initial margin requirement means that the investor had to put $20,000 as collateral in cash or cash equivalents in his account.

   In order for the short margin to fall below the maintenance margin requirement of 25%,

   $0.25 = (60{,}000 - 1000P)/1000P$

   Solving for $P = 48$.

4. **True or False.**

   An investment company is an institution that pools funds from investors with the purpose of investing on their behalf. There can be registered investment companies: mutual funds, unit investment trusts, and real estate investment trust.

   Answer:

   The correct answer is **True**.

5. **True or False**.

   Private equity is one example of investment companies that are not registered with the SEC and make equity investment in companies that are not publicly traded.

   Answer:

   The correct answer is **True**.

6. The difference between mutual funds and hedge funds is...

   a) There is no difference since there are both managed portfolios
   b) Hedge funds are not registered with the SEC since accepts only qualified investors such as high net worth individuals and institutional investors.

c) None of the above.

Answer:

The correct answer is **b**.

7. A market order has

   a) Price uncertainty but no execution uncertainty.

      Yes, that is correct. A market order will be executed at the best possible price. There is no certainty about what that price will be but the order will be executed.

   b) Both price and execution uncertainty

      No, that is not correct.

   c) A market order will be executed at the best possible price. There is no certainty about what that price will be but the order will be executed.

   d) Execution uncertainty but no price uncertainty.

      No, that is not correct. A market order will be executed at the best possible price. There is no certainty about what that price will be but the order will be executed.

   Answer:

   The correct answer is **a**.

8. You are bullish about Bulls Eye stock. The current price is $25 per share and you have $5000 of your own to invest. You borrow an additional $5,000 from your broker at an interest rate of 8% per year and invest 10,000 in the stock. What will be your rate of return if the price of Bulls Eye stock goes up by 10% during the next year?

   Answer:

   The correct answer is **12**.

   With the $10,000 you purchased 400 shares. At the end of the year, the value of your holdings is now $11,000. You will need to pay back what you borrowed $5,000 x (1.08) = $5,400.

   Your return = ($11,000 - $5,400)/$5000 = 12%