

Practice MC Questions

Q1. A given rate is quoted as 9% APR, but has an EAR of 9.3807%. What is the rate of compounding during the year?

- A. Biannually
- B. Annually
- C. Semiannually
- D. Monthly
- E. Continuously

Q2

A cheque-cashing store is in the business of making personal loans to walk-in customers. The store makes only one-week loans at 5 percent interest per week. What annual percentage rate (APR) must the store report to its customers? What is the effective annual rate (EAR) that the customers are actually paying?

- A. APR=6.84% ; EAR=55.98%
- B. APR=7.67% ; EAR=92.90%
- C. APR=8.29% ; EAR=45.98%
- D. APR=125.00% ; EAR=45.98%
- E. APR=260.00% ; EAR=1,164.28%

Q3. Which of the following would happen if the interest rate increases?

- A. Present value of annuity would increase
- B. Price of bond would increase
- C. NPV of an investing project would increase
- D. NPV of an financing project would increase

Q4. Which of the following statements is correct?



- A. Firm's debt-holders are the residual claimants to the firm's cash flows.
- B. Firm's preferred shareholders are the residual claimants to the firm's cash flows.
- C. Firm could go bankrupt if it could not pay dividend to its shareholders.
- D. Preferred shareholders have higher seniority than common stock shareholders during liquidation.

Q5.

A portfolio with 2 stocks (50% A and 50% B) would experience an increase in return variance if:

- A. There is an increase in the expected return of stock A.
- B. There is an increase in the return standard deviation of stock B.
- C. There is an increase in the covariance between the returns of stock A and B.
- D. A and B
- E. A and C
- F. B and C