## Self-Check Questions

[1](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-17#ch17mod01_sques01-solution).

Answer these three questions about early-stage corporate finance:

1. Why do very small companies tend to raise money from private investors instead of through an IPO?
2. Why do small, young companies often prefer an IPO to borrowing from a bank or issuing bonds?
3. Who has better information about whether a small firm is likely to earn profits, a venture capitalist or a potential bondholder, and why?

[2](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-17#ch17mod01_sques02-solution).

From a firm’s point of view, how is a bond similar to a bank loan? How are they different?

[3](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-17#ch17mod02_sques01-solution).

Calculate the equity each of these people has in their home:

1. Eva just bought a house for $200,000 by putting 10% as a down payment and borrowing the rest from the bank.
2. Freda bought a house for $150,000 in cash, but if she were to sell it now, it would sell for $250,000.
3. Ben bought a house for $100,000. He put 20% down and borrowed the rest from the bank. However, the value of the house has now increased to $160,000 and he has paid off $20,000 of the bank loan.

[4](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-17#ch17mod02_sques02-solution).

Which has a higher average return over time: stocks, bonds, or a savings account? Explain your answer.

[5](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-17#ch17mod02_sques03-solution).

Investors sometimes fear that a high-risk investment is especially likely to have low returns. Is this fear true? Does a high risk mean the return must be low?

[6](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-17#ch17mod03_sques01-solution).

What is the total amount of interest from a $5,000 loan after three years with a simple interest rate of 6%?

[7](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-17#ch17mod03_sques02-solution).

If you receive $500 in simple interest on a loan that you made for $10,000 for five years, what was the interest rate you charged?

[8](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-17#ch17mod03_sques03-solution).

You open a 5-year CD for $1,000 that pays 2% interest, compounded annually. What is the value of that CD at the end of the five years?