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Grades Calendar

Mayar Mohsen Mohamed Amein

FM Practice Quiz M5 FM Practice Quiz M5 Guestion 1 According to the credit price effect, how disprices typically affect a company's ability It allows companies to borrow more or it reduces companies to borrow more or it reduces companies ability to borrow requirements It has no effect on companies' borrow M5 Guestion 2 What does the LTV ratio represent in mort offiging The length of time it takes to repay the The loan amount compared to the valuation of the valuation o	25/01 560 FINANCIAL MARKETS				
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of \$1500 what is their debt-to-income (DTI) ratio?					

O 25%

	○ 35%			
Question 7	If a bond has a credit spread of 4% and a recovery rate of 60% what is the implied probability of default?			
	2.40%			
	10%			
	○ 6.67%			
	<u>4</u> %			
Question 8	According to "The Relationship between Stock and Real Estate Prices in Turkey: Evidence around the Global Financial Crisis.", which of the following best describes the relationship between stock and real estate			
	prices in Turkey during the pre-crisis period according to the study?			
	Neither credit-price nor wealth effects existed			
	Both credit-price and wealth effects existed			
	Only the credit-price effect existed			
	Only the wealth effect existed			
Question 9	Which of the following best describes the concept of prepayment risk in			
	mortgage-backed securities?			
	The risk that the housing market will crash			
	The risk that interest rates will rise significantly			
	The risk that borrowers will default on their mortgages			
	 The risk that borrowers will pay off their mortgages earlier than expected 			
Question 10	According to "Stakes Sensitivity and Credit Rating: A New Challenge for Regulators.", what challenge do the authors present for regulators regarding the current use of credit rating agency (CRA) ratings?			
	To require CRAs to only issue ratings that have epistemic status for all possible users			
	To make CRAs legally liable for any losses resulting from their ratings.			
	To show that the harm from acting on ratings lacking epistemic			
	status for investors is outweighed by the benefits			
	To completely ban the use of credit ratings in financial regulation			
Question 11	What is the main issue with rating agencies being paid by the issuers of the debt they are rating?			
	Conflict of interest			
	Lack of expertise			
	Insufficient resources			
	Regulatory constraints			

Question 12

How might the credit-price effect influence an investor's decision when choosing between two similar companies, one with significant real estate holdings and one without?

	The credit-price effect would have no impact on the investor's decision				
	The investor would always choose the company without real estate holdings				
	The investor might prefer the company with real estate holdings due to potentially lower financing costs				
	The investor would avoid both companies due to real estate market volatility				
Question 13	According to "Mortgage Back Securities Overview", what is the name of the organization that holds mortgage backed securites an investment bank can sell?				
	Asset Management Company				
	○ Credit Union				
	National Financial Trust				
	Special Purpose Entity				
Question 14	How does a Credit Default Swap (CDS) differ from traditional insurance?				
	It only covers natural disasters				
	You can buy protection on something you don't own				
	It doesn't require regular premium payments				
	There is no expiration date for CDS				
Question 15	What is the primary concern with a NINJA loan?				
	Complex repayment structure				
	Lack of verified borrower information				
	Short loan terms				
	High interest rates				
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Question 16	In "Do House Prices Influence Stock Prices? Empirical Investigation from the Panel of Selected European Union Countries.", according to the study's panel DOLS results, what is the overall relationship between house prices and stock prices in the EU countries examined?				
	There is no significant relationship between house prices and stock prices				
	The relationship varies significantly among countries with no clear overall trend				
	A 1% increase in house prices leads to a 1.7405% increase in stock prices				
	A 1% increase in house prices leads to a 1.7405% decrease in stock prices				
Question 17	What is the primary purpose of securitization in the context of mortgages?				
	To eliminate all risk from mortgage lending				
	To increase interest rates on mortgages				
	To transform illiquid assets into liquid securities				
	To create new types of mortgages				

C	Question 18	How does the credit spread typically change as the bond rating worsens?		
		O It decreases		
		It increases		
		It remains constant		
C	Question 19	What is the primary purpose of a cash-out refinance?		
		O To lower the interest rate on an existing mortgage		
		To purchase a new property		
		To extend the term of an existing mortgage		
		To withdraw equity from a property as cash		
C	Question 20	How does leverage in the housing market typically manifest for individual homebuyers?		
		By avoiding mortgages altogether		
		Through low down payments and high debt-to-income ratios		
		Through high down payments on home purchases		
		By maintaining low debt-to-income ratios		
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