

FM Practice Quiz M7

Question 1

What is the primary difference between bond and stock valuation in terms of cash flow timing?

- ☐ Both bonds and stocks have specified maturity dates
- ☐ Neither bonds nor stocks have specified maturity dates
- ☐ Stocks have a specified maturity date while bonds last forever
- ☒ Bonds have a specified maturity date while stocks theoretically last forever

✓ This is correct!

QUESTIONS



Question 2

What is the primary difference between risk and uncertainty in financial markets?

- ☐ Risk is always measurable while uncertainty is not
- ☐ Risk involves known distributions while uncertainty involves unknown distributions
- ☐ Risk is associated with positive outcomes while uncertainty is associated with negative outcomes
- ☒ Risk involves known probabilities while uncertainty involves unknown probabilities

✓ This is correct!

Question 3

A portfolio consists of two stocks with standard deviations of 15% and 27% respectively. If the correlation between the stocks is 1 and they are equally weighted, what is the portfolio's standard deviation?

- ☒ 21%
- ☐ 6%
- ☐ 12%
- ☐ 30%

✓ This is correct!

Question 4

Which of the following best describes the concept of leverage in financial markets?

- ☒ A technique to amplify returns by borrowing funds or using derivatives
- ☐ A strategy to diversify investments across asset classes
- ☐ A regulatory requirement to maintain minimum capital reserves
- ☐ A method to reduce overall portfolio risk

✓ This is correct!

Question 5

A trader buys 100 shares of stock at \$50 per share using 2:1 leverage. If the stock price increases by 10% what is the trader's percentage return on their initial investment?

- ☐ 15%
- ☐ 10%
- ☒ 20%
- ☐ 25%

✓ This is correct!

Question 6

Which of the following is NOT mentioned as a category of ethical issues in finance?

- ☐ Taking things that aren't yours
- ☐ Hiding things that you shouldn't hide
- ☐ Overcharging clients for services
- ☒ Lying to colleagues or customers
- ☐ This is a category of ethical issues in finance

Question 7

Which of the following is NOT one of the six key inputs for valuing a call option?

- ☐ Strike level
- ☐ Time to expiration
- ☐ Stock price
- ☒ Company earnings

✓ This is correct!

Question 8

Which of the following best describes the relationship between volatility and direction in financial markets?

- ☐ Volatility only measures positive price movements
- ☐ Volatility always indicates an upward trend in prices
- ☒ Volatility is indifferent to direction and measures the magnitude of price movements
- ☐ Volatility always indicates a downward trend in prices

✓ This is correct!

Question 9

What is the primary purpose of the Macaulay duration metric in bond analysis?

- ☐ To calculate the yield to maturity of a bond
- ☒ To measure the average time to receive cash flows weighted by their present values
- ☐ To estimate the future interest rate movements
- ☐ To determine the credit risk of a bond issuer

✓ This is correct!

Question 10

What is the primary reason why uploading course solutions to public websites is considered unethical?

- ☒ It creates temptation for future students to plagiarize
- ☐ It decreases the value of the course
- ☐ It makes the course too easy for future students
- ☐ It will deter future student enrollment to the course

✓ This is correct!

Question 11

How does underestimating volatility affect option pricing?

- ☐ It only affects put options not call options
- ☒ It leads to underpricing of options
- ☐ It leads to overpricing of options
- ☐ It has no effect on option pricing

✔ This is correct!

Question 12

How does correlation impact portfolio diversification?

- ☐ Higher correlation always leads to better diversification
- ☐ Only perfect positive correlation (+1) leads to diversification
- ☐ Correlation has no impact on diversification
- ☒ Lower correlation between assets generally leads to better diversification

✔ This is correct!

Question 13

How does the fungibility of assets affect market liquidity?

- ☐ It only affects commodity markets
- ☐ It always decreases market liquidity
- ☒ Highly fungible assets tend to have higher market liquidity
- ☐ It has no impact on market liquidity

✔ This is correct!

Question 14

How does plagiarism affect the reputation of a university program?

- ☐ It increases the prestige of the program
- ☐ It leads to more funding for the program
- ☐ It has no effect on the program's reputation
- ☒ It diminishes the value of the degree in the job market

✔ This is correct!

Question 15

What is the primary risk associated with sector-specific ETFs during market stress?

- ☒ They may be more vulnerable to specific economic or regulatory factors affecting that sector
- ☐ They always underperform individual stocks in the same sector
- ☐ They are immune to market downturns
- ☐ They always outperform the broader market

✔ This is correct!

Question 16

What is the main implication of non-linearity in volatility?

- ☒ Volatility of a portfolio of two stocks is not necessary the sum of volatilities of two stocks.
- ☐ Volatility can be easily predicted using linear models
- ☐ Non-linearity in volatility only affects option pricing
- ☐ Volatility always increases proportionally with time

✔ This is correct!

Question 17

What is the primary purpose of the TRACE reporting system in bond markets?

- ☒ To increase price transparency in over-the-counter bond trading
- ☐ To set interest rates for corporate bonds
- ☐ To regulate bond issuance
- ☐ To manage counterparty risk in bond transactions

✔ This is correct!

✔ This is correct!

Question 18

What is the most likely consequence of using AI tools like ChatGPT to complete graded assignments at WQU?

- ☐ A warning from the professor
- ☐ No consequences if used sparingly
- ☐ Extra credit for innovation
- ☒ Heavy penalties for the entire group

✔ This is correct!

Question 19

According to "Financial Stability Report", which of the following is NOT one of the four broad categories of vulnerabilities in the Federal Reserve's monitoring framework for financial stability?

- ☐ Excessive borrowing by businesses and households
- ☐ Valuation pressures
- ☒ Monetary policy implementation
- ☐ Excessive leverage within the financial sector

✔ This is correct!

Question 20

In the context of financial ethics, what does "fiduciary responsibility" mean?

- ☐ Following all government regulations
- ☐ Maximizing profits for the company
- ☒ Acting in the best interest of the client
- ☐ Minimizing risk for the financial institution

✔ This is correct!

