

25/01 560 FINANCIAL MARKETS

Course Overview

M1: Credit Risk and Financing

M2: Return and Volatility

M3: Correlation

M4: Leverage and Nonlinearity

M5: Liquidity and Regulation

FM Forum M5

LESSON 1: SECURITIZATION

Required Readings

Lesson Notes

LESSON 2: VALUATION CHALLENGES: MARKET FRICTIONS AND MODEL RISK

Required Readings

Lesson Notes

LESSON 3: LIQUIDITY AND THE CREDIT MARKET

Required Readings

Lesson Notes

LESSON 4: LEVERAGE AND CRISIS

Required Readings

Lesson Notes

MODULE 5 SUMMARY

Liquidity and Regulation
Screencast

ASSESSMENTS

FM Practice Quiz M5

FM Graded Quiz M5

M6: Model Failure and Crises

M7: Integrating Ethics with
Financial Challenges

Final Test

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 FM Practice Quiz M5

FM Practice Quiz M5

Question 1

According to the credit-price effect, how does an increase in real estate prices typically affect a company's ability to borrow?

- ☒ It allows companies to borrow more at cheaper rates
- ☐ It forces companies to rely more on equity financing
- ☐ It reduces companies' ability to borrow due to increased collateral requirements
- ☐ It has no effect on companies' borrowing capacity

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QUESTIONS

1 2 3 4 5
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Question 2

What does the LTV ratio represent in mortgage lending?

- ☐ The length of time it takes to repay the loan
- ☒ The loan amount compared to the value of the property
- ☐ The borrower's monthly income compared to their debt payments
- ☐ The interest rate on the mortgage

Question 3

If a borrower has a mortgage with an LTV of 80% on a \$250,000 home, what is the loan amount?

- ☐ \$150,000
- ☐ \$225,000
- ☐ \$175,000
- ☒ \$200,000

Question 4

According to "Bonds", in the context of municipal bonds which of the following scenarios presents the highest risk to bondholders?

- ☐ Investing in municipal bonds that are filed with the Municipal Securities Rulemaking Board (MSRB)
- ☐ Investing in general obligation bonds backed by a state's full taxing power
- ☒ Investing in non-recourse revenue bonds where the specific revenue stream has significantly decreased
- ☐ Investing in conduit bonds issued on behalf of a well-established non-profit hospital

Question 5

What is the primary difference between a first-lien and second-lien mortgage?

- ☐ The loan amount
- ☐ Mortgage prepay schedule
- ☐ The loan term
- ☒ The priority of repayment in case of default

Question 6

If a borrower has a monthly income of \$5000 and monthly debt payments of \$1500 what is their debt-to-income (DTI) ratio?

- ☐ 25%

- ☐ 20%
- ☒ 30%
- ☐ 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%
- ☐ 4%

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 securities 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

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

Question 18

How does the credit spread typically change as the bond rating worsens?

- ☐ It fluctuates randomly
- ☐ It decreases
- ☒ It increases
- ☐ It remains constant

Question 19

What is the primary purpose of a cash-out refinance?

- ☐ 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

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

SUBMIT

