WORLDQUVNT
UNIVERSITY

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 ⌄

M6: Model Failure and Crises ⌃

💬 FM Forum M6

LESSON 1: THE BALANCE SHEET: LEVERAGE AND DEFAULT

○ Required Readings

○ Lesson Notes

LESSON 2: DEBT AND EQUITY FINANCING: HOUSING DEVELOPMENT EXAMPLE

○ Required Readings

○ Lesson Notes

LESSON 3: THE HOUSING FINANCE PROBLEM AND ITS SOLUTIONS

○ Required Readings

○ Lesson Notes

LESSON 4: MORE THAN ONE WAY TO PICK A STOCK

○ Required Readings

○ Lesson Notes

MODULE 6 SUMMARY

○ Model Failure and Crises Screencast

ASSESSMENTS

○ FM Practice Quiz M6

○ FM Graded Quiz M6

FM Graded Quiz M6

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QUESTIONS

1 2 3 4 5
6 7 8 9 10
11 12 13 14 15
16

Question 1

What factor might contribute to the increasing time needed to afford an apartment in many countries?

○ Increased government subsidies for housing

○ Declining interest in homeownership

● Rising property values outpacing wage growth

○ Decreasing population growth

Question 2

What is the equity multiplier for a company with total assets of €1,000,000 and liability of €800,000?

● 5x

○ 1.2x

○ 800x

○ 0.2x

Question 3

According "Mortgage-Default Research and the Recent Foreclosure Crisis.", how do two-period models address the limitations of both the FOM and the double-trigger model?

○ They assume all borrowers have the same discount rate

● They limit unsecured borrowing opportunities and show how liquidity constraints affect the valuation of future house-price gains

○ They allow for unlimited borrowing at the riskless rate

○ They ignore the impact of negative equity on default decisions

Question 4

According to "What Is Statistical Arbitrage?", what is the primary advantage of the authors' proposed classification system for statistical arbitrage strategies?

● It allows for flexibility in measuring risk and return while maintaining a common framework for comparing different strategies

○ It eliminates the need for further research into statistical arbitrage methods

○ It provides a definitive list of all possible statistical arbitrage strategies

○ It guarantees the profitability of strategies that fit within the classification

Question 5

How does traditional mortgage underwriting potentially fail to assess credit risk for those with informal employment?

● It may not accurately capture irregular income patterns

○ It overestimates the stability of informal employment

○ It assumes informal employment always leads to default

○ It only considers formal employment as valid

Question 6

If a stock's current price is $60 its price 30 days ago was $55 and its price 60 days ago was $50 what is the difference between its 30-day and 60-day

momentum?

- ○ $10
- ○ $0
- ○ $15
- ● $5

Question 7

According to "Landlords Are Not Developers (and Vice Versa).", what complex relationship does the article reveal between housing scarcity and different real estate market participants?

- ○ Developers always benefit the most from housing scarcity
- ○ Housing scarcity has no impact on real estate market dynamics
- ○ Scarcity uniformly benefits all real estate market participants
- ● While scarcity benefits property owners and landlords, it can be detrimental to developers, especially small-scale ones

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Question 8

If a bank has total assets of €1 billion, deposits of €700 million, and borrowings of €200 million, what is its equity?

- ○ €300 million
- ○ € 0
- ○ €900 million
- ● €100 million

Question 9

According "Mortgage-Default Research and the Recent Foreclosure Crisis.", what is the primary limitation of the pure double-trigger model?

- ○ It does not consider credit scores in default predictions
- ● It implies equal likelihood of default for borrowers with vastly different levels of negative equity or income loss
- ○ It fails to account for positive equity scenarios
- ○ It overestimates the impact of idiosyncratic shocks on default probability

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Question 10

What is the primary advantage of using the MACD indicator in technical analysis?

- ○ It provides an exact intrinsic value for a stock
- ○ It eliminates all market risk
- ● It can identify potential buy and sell signals based on moving average crossovers
- ○ It predicts macroeconomic trends with 100% accuracy

Question 11

According to "The Financialization of Rented Homes: Continuity and Change in Housing Financialization.", what potential impact of rental housing financialization on urban housing markets is suggested by REIT and REOC investment strategies?

- ○ Increased affordable housing options for low-income urban residents
- ● Increased supply and quality of housing for median-income knowledge workers while potentially displacing lower-income residents
- ○ No significant impact on urban housing markets
- ○ Decreased overall housing supply in major urban areas

Question 12

If a company's market price per share is $80 and its book value per share is $40 what is its P/B ratio?

- ◉ 2
- ○ 0.5
- ○ 120
- ○ 1.5

Question 13

How does selling equity in a real estate development company affect profit distribution?

- ○ It increases profits for existing shareholders
- ○ It eliminates the need for profit distribution
- ○ It has no effect on profit distribution
- ◉ It means sharing profits with additional parties

Question 14

Calculate the home equity for a house worth €300,000 with a mortgage balance of €250,000 and a home equity loan of €30,000.

- ◉ € 20,000
- ○ -€ 30,000
- ○ € 50,000
- ○ € 0

Question 15

According to "Finance, Banking, and Money", why did banks in the early 19th century United States typically maintain higher reserve ratios than modern banks?

- ○ To maximize profits from lending
- ◉ Limited borrowing options higher risk of runs and competitive pressures from rival banks
- ○ Due to a surplus of gold and silver coins
- ○ Government regulations mandated higher reserve ratios

Question 16

How does the concept of market efficiency challenge the effectiveness of technical analysis?

- ○ It shows that markets are completely predictable
- ○ It proves that technical analysis is always superior to fundamental analysis
- ◉ It suggests that past price information is already reflected in current prices making pattern recognition less useful
- ○ It demonstrates that only insider information can provide an edge in trading

SUBMIT