25/01 560 FINANCIAL MARKETS

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FM Graded Quiz M1

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QUESTIONS

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Question 1

Propose a new type of financial institution that could help mitigate credit risk. Describe how it would function.

- (●) A financial institution that provides insurance to lenders against borrower default. Lenders pay premiums and are compensated if a borrower fails to repay a loan.
- ( ) A financial institution that provides loans to borrowers without requiring any collateral or credit checks.
- ( ) A financial institution that invests in high-risk, high-return assets to offset the potential losses from borrower defaults.
- ( ) A financial institution that operates without any regulations or oversight to minimize costs associated with compliance.

Question 2

Assess the relationship between the term to maturity and the interest rate of an investment.

- (●) Shorter term to maturity generally implies a lower interest rate
- ( ) Longer term to maturity generally implies a lower interest rate
- ( ) The term to maturity has no impact on the interest rate
- ( ) The relationship between term to maturity and interest rate is random

Question 3

Compare and contrast the credit risk mitigation methods used by exchanges and OTC markets.

- ( ) Neither exchanges nor OTC markets have credit risk mitigation methods
- (●) Exchanges take on credit risk,while OTC markets leave it to the counterparties
- ( ) Exchanges and OTC markets use the same credit risk mitigation methods
- ( ) OTC markets have better credit risk mitigation than exchanges

Question 4

Bond JKL has a face value of $100,000, an annual coupon rate of 6%, pay semi-annually, 3 years to maturity, and is currently trading at $98,000. What is the implied YTM of the bond?

- ( ) 6.25%
- ( ) 7.55%
- (●) 6.75%
- ( ) 8.50%

Question 5

An investor purchases a bond that pays 5% annual interest, with a face value of $1,000 and a term of 3 years. If the investor sells the bond after 2 years for $950, what is the investor's realized annual compound return?

- (●) 3.50%
- ( ) 2.47%
- ( ) 5.00%
- ( ) 4.25%

Question 6

If a bond with a face value of $1,000 is currently trading at $1,050, what does this imply about the relationship between the bond's coupon rate and the current market interest rate?

- ○ There is no relationship between the bond's coupon rate and the current market interest rate
- ○ The bond's coupon rate is equal to the current market interest rate
- ◉ The bond's coupon rate is higher than the current market interest rate
- ○ The bond's coupon rate is lower than the current market interest rate

Question 7

A company issues a bond with a face value of $10,000, a coupon rate of 6%, and a maturity of 5 years. If the bond pays semi-annual coupons, how much will the company pay in total coupon payments over the life of the bond?

- ○ $1,500
- ○ $4,500
- ◉ $3,000
- ○ $6,000

Question 8

According to "Summer in the City: Banking Failures of 1974 and the Development of International Banking Supervision.", what did the Basel Committee initially focus on in response to the 1974 banking failures?

- ◉ Clarifying supervisory responsibilities for international banks
- ○ Harmonizing supervisory practices across countries
- ○ Developing an international supervisory organization
- ○ Implementing binding global regulations

Question 9

Analyze the impact of compounding frequency on the future value of an investment.

- ◉ More frequent compounding leads to a higher future value
- ○ Compounding frequency has no impact on the future value
- ○ More frequent compounding leads to a lower future value
- ○ Less frequent compounding leads to a higher future value

Question 10

How does the transparency of exchanges contribute to fair trading for market participants?

- ○ Exchanges do not provide any transparency in trading
- ○ Transparency on exchanges leads to unfair advantages for institutional investors
- ○ Exchanges limit access to order and trade information to certain participants
- ◉ All participants have access to the same order and trade information

Question 11

Suppose Bond PQU has a face value of $1,000,000, an annual coupon rate of 4.5%, annual coupon payments, and 5 years to maturity. If the current market interest rate is 5%, what is the price of the bond?

- ◉ $978,353
- ○ $850,235
- ○ $950,000
- ○ $1,000,000

Question 12

Calculate the future value of $5,000 invested at an annual interest rate of 6%, compounded monthly for 3 years.

- ○ $6,522.70
- ○ $5,778.50
- ○ $5,420.20
- ◉ $5,983.40

Question 13

Based on the information provided in the lesson, analyze why commercial real estate properties may remain vacant for extended periods.

- ◉ The offer price for commercial real estate often exceeds the bid price by a large amount leading to a lack of transactions
- ○ Commercial real estate properties are not in demand
- ○ Commercial real estate properties have high maintenance costs
- ○ Shorting commercial real estate is not allowed

Question 14

Design a bond with a face value of your choice, a coupon rate, maturity, and payment frequency. Calculate the total coupon payments over the life of the bond.

- ○ Face value: $500,000 \
  Coupon rate: 5.5% \
  Maturity: 6 years \
  Payment frequency: Annual \
  Total coupon payments = 0.055 x 6 = 0.33
- ○ Face value: $500,000
  Coupon rate: 5.5%
  Maturity: 6 years
  Payment frequency: Annual
  Total coupon payments = 500,000 x 0.055 = $27,500
- ◉ Face value: $500,000
  Coupon rate: 5.5%
  Maturity: 6 years
  Payment frequency: Annual
  Total coupon payments = 500,000 x 0.055 x 6 = $165,000
- ○ Face value: $500,000
  Coupon rate: 5.5%
  Maturity: 6 years
  Payment frequency: Annual
  Total coupon payments = 500,000 x 6 = $3,000,000

Question 15

What is the main purpose of financial regulation?

- ◉ To ensure the safety and protection of the interests of stakeholders
- ○ To increase the profits of financial institutions
- ○ To allow financial institutions to operate without any rules
- ○ To make it easier for financial institutions to break the rules

Question 16

Analyze the relationship between the creditworthiness of a borrower and the interest rate they are likely to be offered.

- ○ Creditworthiness has no impact on the interest rate offered to borrowers
- ◉ Borrowers with higher creditworthiness are likely to be offered lower interest rates
- ○ The relationship between creditworthiness and interest rates is random
- ○ Borrowers with lower creditworthiness are likely to be offered lower

interest rates

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