Problem 1. A financial asset that is traded in financial markets is specifically called

(a) a liquid asset

(b) a tradable asset

(c) a security

(d) a bond

(e) none of the above

Problem 2. The relationship between interest rates and bond prices is

(a) positive

(b) negative

(c) neutral

(d) getting serious but bond prices are afraid of commitment

(e) none of the above

Problem 3. The process through which the rates of return on identical assets are equalized is called

(a) financial market transaction

(b) arbitrage

(c) securities market

(d) investment

(e) none of the above

Problem 4. Asset A can be converted into cash faster than Asset B without any loss in value. We say that Asset A is

(a) more tradeable

(b) more liquid

(c) more cashable

(d) more fluid

(e) none of the above

Problem 5. What is the difference between company-specific and market-specific risk? How can you minimize each type of risk?

Problem 6. Chris buys stock of Chevron for \$50. After a few weeks, he collects dividends of \$2 and sells it for \$52. Find Chris's rate of return from this investment.

Problem 7. A bond has a future value of \$140,000 and an interest rate of 12%. What is the price of this bond?

Problem 8. A bond has a future value of \$136,800 and a price today of \$120,000. What is the interest rate on this bond?

Problem 9. A one-year corporate bond pays out \$10,000 next year and is selling for \$8,000 today in the bond market. A one-year US treasury discount bond pays \$1,325 next year and is selling for \$1,250 today. Find the risk premium on the corporate bond.

Problem 10. A low-risk bond has a future value of \$140,000 and a price today of \$125,000. What is the future value of a high-risk bond with a risk premium of 5% and a price of \$100,000?