

Problem 1. Define the following terms and give an example of each.

- (a) asset
- (b) nominal wealth
- (c) physical asset
- (d) financial asset
- (e) intangible asset

Problem 2. 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 3. What is a bond? What is the difference between a discount bond and a coupon bond?

Problem 4. 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 5. The process through which the rates of return on identical assets are equalized is called

- (a) a financial market transaction
- (b) arbitrage
- (c) a securities market
- (d) investment
- (e) none of the above

Problem 6. 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 7. What is the difference between company-specific and market risk? How can you minimize each type of risk?

Problem 8. 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.