

**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?