

# Reading 45: Security Market Indexes

---

## Question #1 of 46

Question ID: 415199

When a security is added to a widely followed market index, the security's price is *most likely* to:

- A) increase.
  - B) decrease.
  - C) be unaffected.
- 

## Question #2 of 46

Question ID: 415174

A security market index is *best* described as a:

- A) directory of ticker symbols for the securities listed on a given market.
  - B) group of securities selected to represent the performance of a security market.
  - C) value used to adjust nominal security prices for the effects of inflation.
- 

## Question #3 of 46

Question ID: 415214

Which of the following sets of indexes are price-weighted?

- A) S&P 500 Index and Dow Jones Industrial Average.
  - B) Dow Jones World Stock Index and Russell Index.
  - C) Dow Jones Industrial Average and Nikkei Dow Jones Stock Market Average.
- 

## Question #4 of 46

Question ID: 415205

The Top Banking Index contains stocks in the finance industry that represent more than 90% of the total market capitalization for the finance industry. The index is *best* described as a:

- A) sector index.
  - B) broad market index.
  - C) style index.
- 

## Question #5 of 46

Question ID: 415197

Reconstitution of an index refers to:

- A) adjusting the weights of the securities that constitute the index.
- B) changing the methodology used to calculate the value of the index.
- C) removing some securities from the index and adding others.

Question #6 of 46

Question ID: 415182

Assume a stock index consists of many firms who have recently split their stock. Which of the following weighting schemes will see a bias due to the impact of stock splits?

- A) Market value-weighted series.
- B) Price-weighted series.
- C) Unweighted price series.

Question #7 of 46

Question ID: 415191

What is the price-weighted index of the following three stocks?

As of December 31, 2001		
Company	Stock Price	Shares Outstanding
A	\$50	10,000
B	\$35	20,000
C	\$110	30,000

- A) 65.
- B) 75.
- C) 80.

Question #8 of 46

Question ID: 656238

The table below lists information on price per share and shares outstanding for three companies-Lair Enterprises, Kurlew, Inc., and Mowe, Ltd.

	As of Beginning of Year		As of End of Year	
Stock	Price Per Share (\$)	# Shares Outstanding	Price Per Share (\$)	# Shares Outstanding
Lair	15	10,000	10	10,000
Kurlew	45	5,000	60	5,000
Mowe	90	500	110	500

Assume that at the beginning of the year, the value of the market-weighted index was 100. The one-year return on the market-cap weighted index is *closest* to:

- A) 30.0%.
  - B) 8.33%.
  - C) 13.33%.
- 

### Question #9 of 46

Question ID: 415216

Which of the following equity indexes is an example of a market capitalization weighted index?

- A) MSCI All Country World Index.
  - B) Dow Jones Industrial Average.
  - C) Nikkei Stock Average.
- 

### Question #10 of 46

Question ID: 485802

Six months after inception, the price return and the total return of an equal-weighted index will be different if:

- A) market prices have not changed.
  - B) constituent securities have paid dividends.
  - C) capital gains exceed capital losses or vice versa.
- 

### Question #11 of 46

Question ID: 415177

The value of a total return index:

- A) can be calculated by multiplying the beginning value by the geometrically linked series of periodic total returns.
  - B) is determined by the price changes of the securities that constitute the index.
  - C) may increase at either a faster or slower rate than the value of a price return index with the same constituent securities and weights.
- 

### Question #12 of 46

Question ID: 415190

An index was recently begun with the following two stocks:

- Company A - 50 shares valued at \$2 each.
- Company B - 10 shares valued at \$10 each.

Given that the value-weighted index was originally set at 100 and Company A's stock is currently selling for \$4 per share while Company B's stock is still at \$10 per share, what is the current value of the price-weighted index and the market-cap-weighted index?

Price-weighted   Market-cap-weighted

- A) 7                      150
- B) 7                      300
- C) 8                      150

Question #13 of 46

Question ID: 415193

Use the data below to determine which of the statements is *most* accurate?

As of December 31		
Company	Stock Price	Shares Outstanding
A	\$25	20,000
B	\$50	20,000
C	\$100	10,000

- A) A 100% increase in the stock price of Company A will have a smaller impact on the price-weighted index than a 100% increase in the stock price of Company C.
- B) For a given percentage change in the stock price, Company B will have less of an impact on the market-cap weighted index as Company C.
- C) For a given percentage change in the stock price, Company A will have a greater impact on the market-cap weighted index than Companies B or C.

Question #14 of 46

Question ID: 415212

Voluntary reporting of performance by hedge fund managers leads to:

- A) no appreciable bias in hedge fund index returns.
- B) an upward bias in hedge fund index returns.
- C) a downward bias in hedge fund index returns.

Question #15 of 46

Question ID: 415206

Which of the following statements regarding bond market indexes is *least* accurate?

- A) There are more bond issues than stocks.
- B) Unlike stocks, bonds lack continuous price trading data.

C) The bond universe is more stable than the stock universe.

---

### Question #16 of 46

Question ID: 415215

Equal weighting is the most common weighting methodology for indexes of which of the following types of assets?

- A) Hedge funds.
  - B) Equities.
  - C) Fixed income securities.
- 

### Question #17 of 46

Question ID: 415207

Which of the following is NOT a reason bond market indexes are more difficult to create than stock market indexes?

- A) Bond deviations tend to be relatively constant.
  - B) The universe of bonds is much broader than that of stocks.
  - C) There is a lack of continuous trade data available for bonds.
- 

### Question #18 of 46

Question ID: 415185

In a market-capitalization weighted index firms with:

- A) higher stock prices have greater impacts on the index.
  - B) larger market caps have lesser impacts on the index.
  - C) greater market caps have greater impacts on the index.
- 

### Question #19 of 46

Question ID: 415211

Which of the following statements is *most accurate* regarding commodity indexes?

- A) Weighting methodology varies among index providers and leads to differences in index risk and returns.
  - B) The return to commodity indexes consists of two major components: the risk-free rate of return and the roll yield.
  - C) Commodity indexes are based on spot prices, while most investors purchase futures contracts.
- 

### Question #20 of 46

Question ID: 415200

The *most* appropriate benchmark for measuring the relative performance of an investment manager is:

- A) the risk-adjusted return on the market portfolio.
  - B) a broad market index.
  - C) an index that closely matches the manager's investment approach.
- 

### Question #21 of 46

Question ID: 415180

The first step in developing a security market index is choosing the index's:

- A) target market.
  - B) constituent securities.
  - C) weighting method.
- 

### Question #22 of 46

Question ID: 415209

Which of the following statements regarding fixed income indexes is *most accurate*?

- A) It is typically easier for portfolio managers to replicate a fixed income index than an equity index.
  - B) Compared to stock indexes, turnover is typically lower in fixed income indexes.
  - C) Because some fixed income securities are illiquid, indexes may include estimates of value.
- 

### Question #23 of 46

Question ID: 485803

Compared to a value-weighted index, the type of index *most likely* to have a value tilt is a(n):

- A) fundamental-weighted index.
  - B) equal-weighted index.
  - C) price-weighted index.
- 

### Question #24 of 46

Question ID: 415179

The value of a security market index at the end of December is 1,200. The index returns for the next six months are:

<u>Month</u>	<u>Return</u>
January	3.89%
February	8.76%
March	-4.74%

April	6.88%
May	-5.39%
June	-8.12%

The index value at the end of June is *closest to*:

- A) 1,186.
- B) 1,214.
- C) 1,200.

### Question #25 of 46

Question ID: 415186

Which of the following statements about indexes is CORRECT?

- A) A market weighted series must adjust the denominator to reflect stock splits in the sample over time.
- B) A price-weighted index assumes an equal number of shares (one of each stock) represented in the index.
- C) An equal weighted index assumes a proportionate market value investment in each company in the index.

### Question #26 of 46

Question ID: 415198

The providers of the Smith 30 Stock Index remove Jones Company from the index because it has been acquired by another firm, and replace it with Johnson Company. This change in the index is *best* described as an example of:

- A) reconstitution.
- B) rebalancing.
- C) redefinition.

### Question #27 of 46

Question ID: 415204

Which type of security market index provides a measure of a market's overall performance and usually contains a significant portion of the market's total value?

- A) Style indexes.
- B) Broad market indexes.
- C) Sector indexes.

### Question #28 of 46

Question ID: 498771

Which of the following is *least likely* required when defining a security market index? The:

- A) number of securities in the index.
  - B) weighting method for the index.
  - C) target market the index will represent.
- 

### Question #29 of 46

Question ID: 415213

Which of the following indexes is a price weighted index?

- A) The New York Stock Exchange Index.
  - B) The Nikkei Dow Index.
  - C) The Standard and Poor's Index.
- 

### Question #30 of 46

Question ID: 415176

The measure of return on a security market index that includes any dividends or interest paid by the securities in the index is known as the:

- A) cash flow return.
  - B) price return.
  - C) total return.
- 

### Question #31 of 46

Question ID: 415178

An index provider maintains a price index and a total return index for the same 40 stocks. Assuming both indexes begin the year with the same value, the total return index at the end of the year will be:

- A) less than the price index if the price index increases and greater than the price index if the price index decreases.
  - B) equal to the price index if the constituent stocks do not pay dividends.
  - C) greater than the price index.
- 

### Question #32 of 46

Question ID: 415173

When using a security market index to represent a market's performance, the performance of that market over a period of time is *best* represented by:

- A) the index value.
- B) the change in the index value.
- C) the percent change in the index value.



---

**Question #33 of 46**

Question ID: 415202

An analyst using the capital asset pricing model is *most likely* to use a security market index as a proxy for:

- A) the market return.
  - B) the risk-free rate.
  - C) beta.
- 

**Question #34 of 46**

Question ID: 415201

Contreras Fund is a mutual fund that invests in value stocks. The *most appropriate* type of equity index to use as a benchmark of manager performance for Contreras Fund is a:

- A) style index.
  - B) sector index.
  - C) broad market index.
- 

**Question #35 of 46**

Question ID: 415210

Commodity price indexes are based on the prices of:

- A) real assets such as grains, oil, and precious metals.
  - B) commodities.
  - C) futures contracts.
- 

**Question #36 of 46**

Question ID: 415184

Which of the following statements *best* describes the investment assumption used to calculate an equal weighted price indicator series?

- A) An equal number of shares of each stock are used in the index.
  - B) An equal dollar investment is made in each stock in the index.
  - C) A proportionate market value investment is made for each stock in the index.
- 

**Question #37 of 46**

Question ID: 415187

With regard to stock market indexes, it is *least likely* that:

- A) a market-cap weighted index must be adjusted for stock splits but not for dividends.
- B) buying 100 shares of each stock in a price-weighted index will result in a portfolio that tracks the index quite well.
- C) the use of price weighting versus market value weighting produces a downward bias on the index.

**Question #38 of 46**

Question ID: 415192

What is the market-cap weighted index of the following three stocks assuming the beginning index value is 100 and a base value of \$150,000?

As of December 31		
Company	Stock Price	Shares Outstanding
X	\$1	5,000
Y	\$20	2,500
Z	\$60	1,000

- A) 77.
- B) 30.
- C) 100.

**Question #39 of 46**

Question ID: 415181

The target market for a security market index is *best* described as the:

- A) consumers who will purchase the licensing rights for the index.
- B) securities that are included in the index.
- C) market or segment the index is designed to measure.

**Question #40 of 46**

Question ID: 415188

James Investments is calculating an equally weighted index on a four stock portfolio.

Stock	Number of Shares	Initial Cost	Current Cost
W	100	5.00	5.00
X	1,000	10.00	12.50
Y	500	7.50	10.00
Z	1500	5.00	8.00

If the initial index value is 100, the current index is *closest* to:

- A) 137.9.
  - B) 129.5.
  - C) 142.6.
- 

### Question #41 of 46

Question ID: 496423

Which of the following statements about a security market index is *most accurate*?

- A) If an index increases by 5% in one year, the market return for the year is 5%.
  - B) An index may reflect dividends paid by its constituent securities.
  - C) An index must use actual prices from market transactions.
- 

### Question #42 of 46

Question ID: 415175

In one year, a security market index has the following quarterly price returns:

First quarter	3%
Second quarter	4%
Third quarter	-2%
Fourth quarter	5%

The price return for the year is *closest to*:

- A) 9.9%.
  - B) 10.0%
  - C) 10.2%.
- 

### Question #43 of 46

Question ID: 415183

Which of the following weighting schemes will produce a downward bias on the index due to the occurrence of stock splits by firms in the index?

- A) Equal weighted price indicator series.
  - B) Market-cap weighted series.
  - C) Price-weighted series.
- 

### Question #44 of 46

Question ID: 415203

An equity index comprised of value stocks, identified by their price-to-earnings ratios, is *best* described as a:

- A) fundamental weighted index.
- B) sector index.
- C) style index.

Question #45 of 46

Question ID: 415189

The table below lists information on price per share and shares outstanding for three stocks.

	As of Beginning of Year		As of End of Year	
Stock	Price per Share (\$)	# Shares Outstanding	Price per Share (\$)	# shares Outstanding
Mertz	10	10,000	15	10,000
Norton	50	5,000	50	5,000
Rubble	100	500	85	500

At the beginning of the year, the value of a market-cap weighted index of these three stocks was 100. The index value at year-end is *closest to*:

- A) 110.6
- B) 93.8
- C) 44.3

Question #46 of 46

Question ID: 415208

Ken Miller, CFA, wants to compare the returns on government agency bonds to the returns on corporate bonds. Peg Egan, CFA, wants to compare the returns on high yield bonds in developed markets to the returns on investment grade bonds in emerging markets. Which of these analysts is *most likely* able to use bond indexes for their analysis?

- A) Both of these analysts.
- B) Neither of these analysts.
- C) Only one of these analysts.