

SS 13 Equity: Market Organization, Market Indices, and Market Efficiency

Question #1 of 151

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) Only one of these analysts.
 - C) Neither of these analysts.
-

Question #2 of 151

Question ID: 415219

In an informationally efficient market:

- A) share prices adjust rapidly when companies announce results in line with expectations.
 - B) buying and holding a broad market portfolio is the preferred investment strategy.
 - C) the conditions exist for active investment strategies to achieve superior risk-adjusted returns.
-

Question #3 of 151

Question ID: 415151

An order placed to protect a short position is called a:

- A) stop loss sell.
 - B) stop loss buy.
 - C) protective call.
-

Question #4 of 151

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) redefinition.
- C) rebalancing.

Question #5 of 151

Question ID: 598995

An investor who is more risk averse with respect to potential negative outcomes than potential positive outcomes *most likely* exhibits:

- A) mental accounting.
 - B) loss aversion.
 - C) conservatism.
-

Question #6 of 151

Question ID: 415161

Which of the following statements regarding primary and secondary markets is *least* accurate?

- A) Prevailing market prices are determined by primary market transactions and are used in pricing new issues.
 - B) New issues of government securities can be sold on the primary market.
 - C) Secondary market transactions occur between two investors and do not involve the firm that originally issued the security.
-

Question #7 of 151

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 #8 of 151

Question ID: 415144

An investor buys 400 shares of a stock for \$25 a share. The initial margin requirement is 50%, and the maintenance margin requirement is 25%. At what price would an investor receive a margin call?

- A) \$30.00.
 - B) \$21.88.
 - C) \$16.67.
-

Question #9 of 151

Question ID: 415122

In contrast with a typical forward contract, futures contracts have:

- A) greater counterparty risk.
 - B) less liquidity.
 - C) standardized terms.
-

Question #10 of 151

Question ID: 415159

Which of the following statements about securities markets is *least* accurate?

- A) A market that features low transactions costs is said to have operational efficiency.
 - B) Initial public offerings (IPOs) are sold in the secondary market.
 - C) In a continuous market, a security can trade any time the market is open.
-

Question #11 of 151

Question ID: 415120

Which of the following assets are *best* characterized as contracts?

- A) Currency swaps.
 - B) Depository receipts.
 - C) Commercial paper.
-

Question #12 of 151

Question ID: 415231

The semi-strong form of efficient market hypothesis (EMH) asserts that:

- A) past and future prices exhibit little or no relationship to another.
- B) both public and private information is already incorporated into security prices.
- C) all public information is already reflected in security prices.

Question #13 of 151

Question ID: 485798

Shares in a publicly traded company that owns gold mines and mining operations are considered:

- A) financial assets.
 - B) real assets.
 - C) physical assets.
-

Question #14 of 151

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?

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

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

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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 #16 of 151

Question ID: 415223

The value of an asset that a rational investor with full knowledge about the asset's characteristics would willingly pay is *best* described as the asset's:

- A) intrinsic value.
 - B) theoretical value.
 - C) market value.
-

Question #17 of 151

Question ID: 415121

Equity securities *most likely* include:

- A) commercial paper and repurchase agreements.
 - B) preferred stock and certificates of deposit.
 - C) common stock and warrants.
-

Question #18 of 151

Question ID: 415148

Toby Jensen originally purchased 400 shares of CSC stock on margin at a price of \$60 per share. The initial margin requirement is 50% and the maintenance margin is 25%. CSC stock price has fallen dramatically in recent months and it closed today with a sharp decline bringing the closing price to \$40 per share. Will Jensen receive a margin call?

- A) No, he meets the minimum maintenance margin requirement.
 - B) Yes, he does not meet the minimum maintenance margin requirement.
 - C) No, he meets the minimum initial margin requirement.
-

Question #19 of 151

Question ID: 415168

A unique item such as fine art is *most likely* to be exchanged in a(n):

- A) brokered market.
 - B) order-driven market.
 - C) quote-driven market.
-

Question #20 of 151

Question ID: 415241

Which of the following statements *least likely* describes the role of a portfolio manager in perfectly efficient markets? Portfolio managers should:

- A) construct diversified portfolios that include international securities to eliminate unsystematic risk.

- B) construct a portfolio that includes financial and real assets.
 - C) quantify client's risk tolerance, communicate portfolio policies and strategies, and maintain a strict buy and hold policy avoiding any changes in the portfolio to minimize transaction costs.
-

Question #21 of 151

Question ID: 415246

Which of the following statements *best* describes the overreaction effect?

- A) High returns over a one-year period are followed by low returns over the following three years.
 - B) High returns over a one-year period are followed by high returns over the following year.
 - C) Low returns over a three-year period are followed by high returns over the following three years.
-

Question #22 of 151

Question ID: 415239

Under the efficient market hypothesis (EMH), the major effort of the portfolio manager should be to:

- A) achieve complete diversification of the portfolio.
 - B) follow a strict buy and hold strategy.
 - C) minimize systematic risk in the portfolio.
-

Question #23 of 151

Question ID: 415191

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

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

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

Question #24 of 151

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

Question #25 of 151

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 #26 of 151

Question ID: 415250

In behavioral finance theory, how is loss aversion *most accurately* defined? For gains and losses of equal amounts, investors:

- A) dislike for losses and like for gains are proportionate.
 - B) like gains more than they dislike losses.
 - C) dislike losses more than they like gains.
-

Question #27 of 151

Question ID: 498771

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

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

Question #28 of 151

Question ID: 415230

The strong-form efficient market hypothesis (EMH) asserts that stock prices fully reflect which of the following types of information?

- A) Market.
 - B) Public, private, and future.
 - C) Public and private.
-

Question #29 of 151

Question ID: 415128

Which of the following statements about selling a stock short is *least likely* accurate?

- A) The seller must inform their broker that the order is a short sale before completing the transaction.
 - B) The short seller may withdraw the proceeds of the short sale.
 - C) The seller must return the securities at the request of the lender.
-

Question #30 of 151

Question ID: 415152

Stop loss sell orders are:

- A) placed to protect the gains on a long position.
 - B) placed to protect a short position.
 - C) executed on an uptick only.
-

Question #31 of 151

Question ID: 415160

Which of the following is *least likely* a service provided by an underwriter in the primary market?

- A) Risk Bearing.
 - B) Origination.
 - C) Diversification.
-

Question #32 of 151

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 #33 of 151

Question ID: 415141

Sonia Fennell purchases 1,000 shares of Xpressoh Inc. for \$35 per share. One year later, she sells the stock for \$42 per share. Xpressoh Inc. pays no dividends. The initial margin requirement is 50%. Fennell's one-year return assuming an all-cash transaction, and if she buys on margin (assume she pays no transaction or borrowing costs and has not had to post additional margin), are *closest* to:

	<u>All-cash</u>	<u>50% margin</u>
A) 20%		40%
B) 40%		80%
C) 20%		80%

Question #34 of 151

Question ID: 415136

If an investor buys 100 shares of a \$50 stock on margin when the initial margin requirement is 40%, how much money must she borrow from her broker?

- A) \$2,000.
 - B) \$4,000.
 - C) \$3,000.
-

Question #35 of 151

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

Question #36 of 151

Question ID: 415149

Byron Campbell purchased 300 shares of Crescent, Inc., stock at a price of \$80 per share. The purchase was made on margin with an initial margin requirement of 50%. Assuming the maintenance margin is 25%, the stock price of Crescent, Inc. has to fall below what level for Campbell to receive a margin call?

- A) \$53.33.
 - B) \$40.00.
 - C) \$20.00.
-

Question #37 of 151

Question ID: 415165

A trading system that matches buyers and sellers based on price and time precedence is *most likely* a(n):

- A) brokered market.
 - B) order-driven market.
 - C) quote-driven market.
-

Question #38 of 151

Question ID: 415134

Mark Ritchie purchased, on margin, 200 shares of TMX Corp. stock at a price of \$35 per share. The margin requirement was 50%. The stock price has increased to \$42 per share. What is Ritchie's return on investment before commissions and interest if he decides to sell his TMX holdings now?

- A) 20%.
 - B) 40%.
 - C) 10%.
-

Question #39 of 151

Question ID: 415244

The opportunity to take advantage of the downward pressure on stock prices that result from end-of-the-year tax selling is known as the:

- A) January anomaly.
 - B) end-of-the-year effect.
 - C) end-of-the-year anomaly.
-

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Question ID: 485800

A trader pays \$100 per share to buy 500 shares of a non-dividend-paying firm. The purchase is done on margin, and the leverage ratio at purchase is 3.0X. Three months later, the trader sells the shares for \$90 per share. Ignoring transaction costs and interest paid on the margin loan, the trader's 3-month return was *closest to*:

- A) -10%.
 - B) -30%.
 - C) -40%.
-

Question #41 of 151

Question ID: 415126

Regarding the technical points affecting the short sales of a stock, which of the following statements is *most* accurate?

- A) The lender must deposit margin to guarantee the eventual return of the stock.
 - B) Stocks can only be shorted in a down market.
 - C) The short seller must pay all dividends due to the lender of the shorted stock.
-

Question #42 of 151

Question ID: 415242

Which of the following is a limitation to fully efficient markets?

- A) The gains to be earned by information trading can be less than the transaction costs the trading would entail.
 - B) Information is always quickly disseminated and fully embedded in a security's prices.
 - C) There are no limitations to fully efficient markets because the trading actions of fundamental and technical analysts are continuously keeping prices at their intrinsic value.
-

Question #43 of 151

Question ID: 415237

If the efficient markets hypothesis is true, portfolio managers should do all of the following EXCEPT:

- A) Minimize transaction costs.
 - B) Work more with clients to better quantify their risk preferences.
 - C) Spend more time working on security selection.
-

Question #44 of 151

Question ID: 415174

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

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

Question #45 of 151

Question ID: 415186

Which of the following statements about indexes is CORRECT?

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

Question #46 of 151

Question ID: 415150

An investor sold a stock short and is worried about rising prices. To protect himself from rising prices he would place a:

- A) stop order to sell.
 - B) stop order to buy.
 - C) limit order to buy.
-

Question #47 of 151

Question ID: 415247

If the momentum effect persists over time, it would provide evidence against which of the following forms of market efficiency?

- A) Weak form only.
 - B) Both weak form and semistrong form.
 - C) Semistrong form only.
-

Question #48 of 151

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 #49 of 151

Question ID: 415225

A market's efficiency is *most likely* to negatively affected by:

- A) a high amount of trading activity.
 - B) a ban on short selling.
 - C) substantial analyst coverage of the exchange listed companies
-

Question #50 of 151

Question ID: 415153

Austin Bruno, CFA, places a fill or kill, limit buy order at 92 for a stock. Bruno's order specifies:

- A) clearing and validity instructions.
 - B) execution and clearing instructions.
 - C) validity and execution instructions.
-

Question #51 of 151

Question ID: 415137

Becky Kirk contacted her broker and placed an order to purchase 1,000 shares of Bricko Corp. stock at a price of \$60 per share. Kirk wishes to buy on margin. Assuming the margin requirement is 40%, how much money does Kirk have to pay up front to make the purchase?

- A) \$24,000.
 - B) \$36,000.
 - C) \$60,000.
-

Question #52 of 151

Question ID: 415232

Which of the following statements about market efficiency is *least* accurate?

- A) The semi-strong form EMH addresses market and non-market public information.

- B) The strong-form EMH assumes cost free availability of all information, both public and private.
 - C) The weak-form EMH suggests that fundamental analysis will not provide excess returns while the semi-strong form suggests that technical analysis cannot achieve excess returns.
-

Question #53 of 151

Question ID: 434375

A market that directs capital to its most productive use is *best* described as:

- A) informationally efficient.
 - B) allocationally efficient.
 - C) operationally efficient.
-

Question #54 of 151

Question ID: 415220

Hume Inc. announces fourth quarter earnings per share of \$1.20, which is 15% higher than last year. Hume's earnings are equal to the consensus analyst forecast for the quarter. Assuming markets are efficient, the announcement will *most likely* cause the price of Hume's stock to:

- A) remain the same.
 - B) increase.
 - C) decrease.
-

Question #55 of 151

Question ID: 434372

An investor purchases 200 shares of Rubble, Inc. on margin. The shares are trading at \$40. Initial and maintenance margins are 50% and 25%. If the company pays a dividend of \$0.75 and the investor sells the stock at year-end for \$50 per share, the return on the investment would be *closest* to:

- A) 53.75%
 - B) 15.75%
 - C) 39.55%
-

Question #56 of 151

Question ID: 415224

Which of the following would be *inconsistent* with an efficient market?

- A) Price changes are independent.
 - B) Stock prices adjust rapidly to new information.
 - C) Price adjustments are biased.
-

Question #57 of 151

Question ID: 434373

An investor purchases 100 shares at \$75 per share with an initial margin of 50%. Assume there is no interest on the call loan and no transactions fees. If the stock price rises to \$112.50, the rate of return to the investor is:

- A) 200%.
 - B) 50%.
 - C) 100%.
-

Question #58 of 151

Question ID: 415162

Which of the following statements about primary and secondary markets is *least* accurate?

- A) A primary market is a market in which new securities are sold.
 - B) The proceeds from a sale in the secondary market go to the issuer.
 - C) The primary market benefits from the liquidity provided by the secondary market.
-

Question #59 of 151

Question ID: 415156

A buy limit order is said to be "inside the market" when:

- A) the limit is below the best bid.
 - B) the limit is between the best bid and the best ask.
 - C) it reaches the exchange floor and is entered in the limit book.
-

Question #60 of 151

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) Sector indexes.
- B) Style indexes.

C) Broad market indexes.

Question #61 of 151

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

Question #62 of 151

Question ID: 415133

Lynne Hampton purchased 100 shares of \$75 stock on margin. The margin requirement set by the Federal Reserve Board was 40%, but Hampton's brokerage firm requires a total margin of 50%. Currently the stock is selling at \$62 per share. What is Hampton's return on investment *before* commission and interest if she sells the stock now?

- A) -17%.
 - B) -35%.
 - C) -40%.
-

Question #63 of 151

Question ID: 415125

Which type of financial intermediary is a corporation *most likely* to use if it wants to issue new common stock to investors?

- A) Block broker.
 - B) Securitizer.
 - C) Investment bank.
-

Question #64 of 151

Question ID: 415181

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

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

Question #65 of 151

Question ID: 485802

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

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

Question #66 of 151

Question ID: 415140

An investor bought a stock on margin. The margin requirement was 60%, the current price of the stock is \$80, and the stock price was \$50 one year ago. If margin interest is 5%, how much equity did the investor have in the investment at year-end?

- A) 67.7%.
 - B) 73.8%.
 - C) 60.6%.
-

Question #67 of 151

Question ID: 485801

A stock's limit order book is as follows:

<u>Bid Size</u>	<u>Limit Price (£)</u>	<u>Offer Size</u>
700	25.25	
300	25.30	
100	25.40	
	25.50	500
	25.55	200
	25.75	500

A new sell limit order is placed for 250 shares at £25.45. This limit order is said to be:

- A) making a new market.
 - B) behind the market.
 - C) an iceberg order.
-

Question #68 of 151

Question ID: 415172

Peg Fisk, CFA, states that two of the objectives of market regulation which CFA Institute attempts to address are minimum standards of competence among investment professionals and ease of performance evaluation for investors. Fisk is accurate with regard to:

- A) only one of these objectives
- B) neither of these objectives.
- C) both of these objectives.

Question #69 of 151

Question ID: 415238

Which of the following statements concerning market efficiency is *least* accurate?

- A) Tests of the semi-strong form of the EMH require that security returns be risk-adjusted using a market model.
- B) If weak-form market efficiency holds, technical analysis cannot be used to earn abnormal returns over the long-run.
- C) Market efficiency assumes that individual market participants correctly estimate asset prices.

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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?

	<u>Price-weighted</u>	<u>Market-cap-weighted</u>
--	-----------------------	----------------------------

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

Question #71 of 151

Question ID: 415245

Which of the following would provide evidence *against* the semistrong form of the efficient market theory?

- A) Low P/E stocks tend to have positive abnormal returns over the long run.
 - B) Trend analysis is worthless in determining stock prices.
 - C) All investors have learned to exploit signals related to future performance.
-

Question #72 of 151

Question ID: 415221

The measure of an asset's value that can *most likely* be determined without estimation is its:

- A) fundamental value.
 - B) market value.
 - C) intrinsic value.
-

Question #73 of 151

Question ID: 415115

Markets for financial assets with maturities of one year or less are *best* characterized as:

- A) capital markets.
 - B) money markets.
 - C) primary markets.
-

Question #74 of 151

Question ID: 415227

Which of the following is NOT an assumption behind efficient capital markets?

- A) Return expectations implicitly include risk.
 - B) Market participants correctly adjust prices to reflect new information.
 - C) New information occurs randomly, and the timing of announcements is independent of one another.
-

Question #75 of 151

Question ID: 485803

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

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

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Question ID: 415170

A financial system in which transactions have low costs is said to exhibit:

- A) informational efficiency.
 - B) operational efficiency.
 - C) allocational efficiency.
-

Question #77 of 151

Question ID: 415139

Which of the following statements regarding margin accounts is *most* accurate?

- A) The total equity in the margin account cannot fall below the initial margin requirement.
 - B) Maintenance margin refers to the amount of funds the investor can borrow.
 - C) Margin accounts can be used to purchase securities by borrowing part of the purchase price.
-

Question #78 of 151

Question ID: 415129

A short seller:

- A) loses if the price of the stock sold short decreases.
 - B) does not receive the dividends.
 - C) often also places a stop loss sell order.
-

Question #79 of 151

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

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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.

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Question ID: 415142

An investor purchases stock on 25% initial margin, posting \$10 of the original stock price of \$40 as equity. The position has a required maintenance margin of 20%. The investor later sells the stock for \$45. Ignoring transaction costs and margin loan interest, which of the following statements is *most* accurate?

- A) Leverage ratio is 3:1.
- B) Margin call price is \$36.
- C) Return on investment is 50%.

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

Question #83 of 151

Question ID: 415171

An objective of financial market regulation is to:

- A) reduce information gathering costs by requiring common financial reporting standards.
 - B) ensure that inside information is made public in a timely manner.
 - C) prevent uninformed investors from participating in financial markets.
-

Question #84 of 151

Question ID: 415117

A securities exchange where traders buy and sell long-term government bonds from and to other traders would *best* be described as part of the:

- A) capital market.
 - B) primary market.
 - C) money market.
-

Question #85 of 151

Question ID: 415112

The main functions of the financial system *least likely* include:

- A) allocating financial resources to their most productive uses.
 - B) bringing together savers and borrowers.
 - C) preventing investors from generating abnormal profits by trading on information.
-

Question #86 of 151

Question ID: 415207

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

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

Question #87 of 151

Question ID: 415212

Voluntary reporting of performance by hedge fund managers leads to:

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

Question #88 of 151

Question ID: 434371

An investor purchases 200 shares of Mertz, Inc. on margin. The shares are trading at \$40. Initial and maintenance margins are 50% and 25%. If the investor sells the stock when the price rises to \$50 at year-end, the return on the investment would be *closest* to:

- A) 25%.
 - B) 50%.
 - C) 20%.
-

Question #89 of 151

Question ID: 415169

Which of the following is *least* likely a characteristic of a well-functioning market?

- A) Prices change significantly from one transaction to the next.
 - B) Reliable information is available on price and volume.
 - C) Prices adjust quickly when new information becomes available.
-

Question #90 of 151

Question ID: 415240

In a perfectly efficient market, portfolio managers should do all of the following EXCEPT:

- A) monitor their client's needs and circumstances.

- B) quantify their risk and return needs within the bounds of the client's liquidity, income, time horizon, legal, and regulatory constraints.
 - C) diversify to eliminate systematic risk.
-

Question #91 of 151

Question ID: 415236

Which of the following forms of the EMH assumes that no group of investors has monopolistic access to relevant information?

- A) Strong-form.
 - B) Weak-form.
 - C) Both weak and semistrong form.
-

Question #92 of 151

Question ID: 500871

Which of the following is *most likely* an objective of market regulation?

- A) Preserve or increase liquidity.
 - B) Limit downside risk to investors.
 - C) Educate unsophisticated investors.
-

Question #93 of 151

Question ID: 415166

Which of the following statements about securities exchanges is NOT correct?

- A) Securities exchanges may be structured as call markets or continuous markets.
 - B) In call markets, there is only one negotiated price set to clear the market for a given stock.
 - C) In continuous markets, prices are set only by the auction process.
-

Question #94 of 151

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) the use of price weighting versus market value weighting produces a downward bias on the index.
- C) buying 100 shares of each stock in a price-weighted index will result in a portfolio that tracks the index quite well.

Question #95 of 151

Question ID: 415158

A primary market transaction involves:

- A) the direct trading of securities between institutional investors.
 - B) primarily preferred stocks.
 - C) the sale of new securities to investors.
-

Question #96 of 151

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

Question #97 of 151

Question ID: 415251

The idea that uninformed traders, when faced with unclear information, observe the actions of informed traders to make decisions, is referred to as:

- A) information cascades.
 - B) herding behavior.
 - C) narrow framing.
-

Question #98 of 151

Question ID: 415118

The prospectus for the Horizon Fund states that it invests only in real assets. Which of the following would the Horizon Fund *most likely* include in its portfolio?

- A) An investment in an apartment complex.
 - B) Holdings of foreign currencies.
 - C) Common stock of a technology company.
-

Question #99 of 151

Question ID: 485799

An investor purchased 725 shares of stock at \$40 per share and posted initial margin of 60%. He subsequently sold the shares at \$50 per share. Based only on this information, the investor's holding period return is *closest to*:

- A) 25%.
 - B) 20%.
 - C) 40%.
-

Question #100 of 151

Question ID: 415127

An investor can profit from a stock price decline by:

- A) placing a stop buy order.
 - B) selling short.
 - C) purchasing a call option.
-

Question #101 of 151

Question ID: 655687

An investor buys 200 shares of ABC at the market price of \$100 and posts the required initial margin of \$8,000. The maintenance margin requirement is 25%.

At what share price will the investor's account balance be reduced to the maintenance margin level?

- A) \$112.
 - B) \$80.
 - C) \$48.
-

Question #102 of 151

Question ID: 415213

Which of the following indexes is a price weighted index?

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

Question #103 of 151

Question ID: 415203

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

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

Question #104 of 151

Question ID: 415235

The semi-strong form of the efficient market hypothesis (EMH) asserts that stock prices:

- A) fully reflect all publicly available information.
 - B) fully reflect all relevant information including insider information.
 - C) fully reflect all historical price information.
-

Question #105 of 151

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 #106 of 151

Question ID: 415113

The main functions of the financial system *most likely* include:

- A) determining the supply of money and determining equilibrium interest rates.
 - B) determining equilibrium interest rates and allocating capital to its most productive uses.
 - C) allocating capital to its most productive uses and determining the supply of money.
-

Question #107 of 151

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 Industrial Average and Nikkei Dow Jones Stock Market Average.
 - C) Dow Jones World Stock Index and Russell Index.
-

Question #108 of 151

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 #109 of 151

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) Because some fixed income securities are illiquid, indexes may include estimates of value.
 - C) Compared to stock indexes, turnover is typically lower in fixed income indexes.
-

Question #110 of 151

Question ID: 415229

The statement, "Stock prices fully reflect all information from public and private sources," can be attributed to which form of the efficient market hypothesis (EMH)?

- A) Semistrong-form EMH.
 - B) Strong-form EMH.
 - C) Weak-form EMH.
-

Question #111 of 151

Question ID: 415123

Financial intermediaries that issue securities which represent interests in a pool of similar financial assets are *best* characterized as:

- A) securitizers.
- B) arbitrageurs.

C) block brokers.

Question #112 of 151

Question ID: 415147

Which of the following statements about the maintenance margin requirement is *least* accurate?

- A) The Federal Reserve sets the maximum maintenance margin.
 - B) Generally the maintenance margin requirement is lower than the initial margin requirement.
 - C) The purpose of the maintenance margin requirement is to protect the broker in the event of a large stock decline.
-

Question #113 of 151

Question ID: 415218

The implication of efficient capital markets and a lack of superior analysts have led to the introduction of:

- A) balanced funds.
 - B) futures options.
 - C) index funds.
-

Question #114 of 151

Question ID: 415234

Which of the following forms of the EMH assumes that no group of investors has monopolistic access to relevant information?

- A) Weak-form.
 - B) Strong-form.
 - C) Both weak and semistrong form.
-

Question #115 of 151

Question ID: 415163

Which of the following is a difference between primary and secondary capital markets?

- A) Primary markets are where stocks trade while secondary markets are where bonds trade.
 - B) Secondary capital markets relate to the sale of new issues of bonds, preferred, and common stock, while primary capital markets are where securities trade after their initial offering.
 - C) Primary capital markets relate to the sale of new issues of bonds, preferred, and common stock, while secondary capital markets are where securities trade after their initial offering.
-

Question #116 of 151

Question ID: 415206

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

- A) The bond universe is more stable than the stock universe.
 - B) Unlike stocks, bonds lack continuous price trading data.
 - C) There are more bond issues than stocks.
-

Question #117 of 151

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

Question #118 of 151

Question ID: 415143

An investor buys 1,000 shares of a non-dividend-paying stock for \$18. The initial margin requirement is 40% and the maintenance margin is 30%. After one year the investor sells the stock for \$24 per share. The investor's rate of return on this investment (ignoring borrowing and transactions costs and taxes), and the price at which the investor would receive a margin call, are *closest to*:

Rate of return Margin call

- A) 83% \$15.43

B) 33% \$15.43

C) 83% \$21.00

Question #119 of 151

Question ID: 415124

Which of the following statements about financial intermediaries is *most* accurate?

- A) Brokers seek out traders that are willing to take the opposite sides of their clients' orders.
 - B) Dealers buy a security in one market and simultaneously sell the same security in a different market.
 - C) Arbitrageurs buy securities with the anticipation that they will be able to sell the securities in the future at higher prices.
-

Question #120 of 151

Question ID: 415249

Investor overreaction that has been documented in securities markets is *most likely* attributable to investors exhibiting:

- A) loss aversion.
 - B) conservatism.
 - C) risk aversion.
-

Question #121 of 151

Question ID: 415216

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

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

Question #122 of 151

Question ID: 415157

Which of the following orders is said to be "behind the market"?

- A) Market sell order when the best bid is 38 and the best ask is 39.
- B) Limit sell order at 38 when the best ask is 39.
- C) Limit buy order at 38 when the best bid is 39.

Question #123 of 151

Question ID: 415217

An efficient capital market:

- A) does not fully reflect all of the information currently available about a given security, including risk.
- B) fully reflects all of the information currently available about a given security, excluding risk.
- C) fully reflects all of the information currently available about a given security, including risk.

Question #124 of 151

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.

	<i>As of Beginning of Year</i>		<i>As of End of Year</i>	
<i>Stock</i>	<i>Price Per Share (\$)</i>	<i># Shares Outstanding</i>	<i>Price Per Share (\$)</i>	<i># Shares Outstanding</i>
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) 13.33%.
- B) 8.33%.
- C) 30.0%.

Question #125 of 151

Question ID: 415185

In a market-capitalization weighted index firms with:

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

C) larger market caps have lesser impacts on the index.

Question #126 of 151

Question ID: 415164

Which of the following statements regarding secondary markets is *least* accurate? Secondary markets are important because they provide:

- A) firms with greater access to external capital.
 - B) regulators with information about market participants.
 - C) investors with liquidity.
-

Question #127 of 151

Question ID: 415131

When using margin to invest in equities, which of the following defines initial margin and what level will the margin be brought back to in the event of a margin call?

<u>Initial Margin</u>	<u>Margin Call Action</u>
A) minimum amount of equity required of the investor	a deposit must be made to bring the margin back to the initial margin
B) amount of borrowed funds in the transactions	a deposit must be made to bring the margin back to the maintenance margin
C) minimum amount of equity required of the investor	a deposit must be made to bring the margin back to the maintenance margin

Question #128 of 151

Question ID: 415119

Jorman Inc. stock is cross-listed on exchanges in Tokyo and New York. Jorman stock is *best* described as a:

- A) private security.
 - B) primary market security.
 - C) public security.
-

Question #129 of 151

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 #130 of 151

Question ID: 415222

A stock is said to be undervalued if its market price is:

- A) less than its intrinsic value.
 - B) greater than its intrinsic value.
 - C) less than its book value.
-

Question #131 of 151

Question ID: 415154

An order to sell a security at the best price available is *most likely* a:

- A) limit order.
 - B) stop order.
 - C) market order.
-

Question #132 of 151

Question ID: 415116

The "real assets" classification *most likely* includes:

- A) bonds.
 - B) stocks.
 - C) commodities.
-

Question #133 of 151

Question ID: 415132

Using the following assumptions, calculate the rate of return on a margin transaction for an investor who purchases the stock and the stock price at which the investor would have received a margin call.

- Market Price Per Share: \$32
- Number of Shares Purchased: 1,000
- Holding Period: 1 year
- Ending Share Price: \$34
- Initial Margin Requirement: 40%
- Maintenance margin: 25%
- Transaction and borrowing costs: \$0
- The company pays no dividends

	<u>Margin Return</u>	<u>Margin Call Price</u>
--	----------------------	--------------------------

- | | | |
|-----------|-------|---------|
| A) | 15.6% | \$17.07 |
| B) | 6.3% | \$25.60 |
| C) | 15.6% | \$25.60 |

Question #134 of 151

Question ID: 415226

An increase in which of the following factors would *most likely* improve a market's efficiency?

- A)** Number of participants.
- B)** Restrictions on short selling.
- C)** Bid-ask spreads.

Question #135 of 151

Question ID: 415167

Which of the following statements about securities exchanges is *most* accurate?

- A)** Continuous markets are markets where trades occur 24 hours per day.
- B)** Call markets are markets in which the stock is only traded at specific times.
- C)** Setting a negotiated price to clear the market is a method used to set the closing price in major continuous markets.

Question #136 of 151

Question ID: 415145

An investor purchases 100 shares of Lloyd Computer at \$26 a share. The initial margin requirement is 50%, and the maintenance margin requirement is 25%. The price below which the investor would receive a margin call is *closest* to:

- A)** 19.45.

B) 17.33.

C) 15.25.

Question #137 of 151

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 must use actual prices from market transactions.

C) An index may reflect dividends paid by its constituent securities.

Question #138 of 151

Question ID: 434374

Which of the following statements about securities markets is *least* accurate?

A) A limit buy order and a stop buy order are both placed below the current market price.

B) Characteristics of a well-functioning securities market *include*: many buyers and sellers, low bid-ask spreads, timely information on price and volume of past transactions, and accurate information on supply and demand.

C) Secondary markets, such as the over-the-counter (OTC) market, provide liquidity and price continuity.

Question #139 of 151

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) price return.

B) total return.

C) cash flow return.

Question #140 of 151

Question ID: 415189

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

	<i>As of Beginning of Year</i>	<i>As of End of Year</i>
--	--------------------------------	--------------------------

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) 44.3
- C) 93.8

Question #141 of 151

Question ID: 485804

Octagon Advisors believes that the market is semi-strong efficient. The firm's portfolio managers *most likely* will use:

- A) active portfolio management strategies.
- B) passive portfolio management strategies.
- C) an enhanced indexing strategy that relies on trading patterns.

Question #142 of 151

Question ID: 415197

Reconstitution of an index refers to:

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

Question #143 of 151

Question ID: 415243

David Farrington is an analyst at Farrington Capital Management. He is aware that many people believe that the capital markets are fully efficient. However, he is not convinced and would like to disprove this claim. Which of the following statements would support Farrington in his effort to demonstrate the limitations to fully efficient markets?

- A) Technical analysis has been rendered useless by many academics who have shown that analyzing market trends, past volume and trading data will not lead to abnormal returns.

- B) Stock prices adjust to their new efficient levels within hours of the release of new information.
 - C) Processing new information entails costs and takes at least some time, so security prices are not always immediately affected.
-

Question #144 of 151

Question ID: 415130

Which of the following option positions is said to be a long position?

- A) Writer of a put option.
 - B) Writer of a call option.
 - C) Buyer of a put option.
-

Question #145 of 151

Question ID: 415114

Which of the following conditions is *most likely* necessary for capital to be allocated to its most valuable uses?

- A) Financial markets are frictionless (i.e., free of taxes or transactions costs).
 - B) Investors are well informed about the risk and return of various investments.
 - C) There are no barriers to the flow of complete information to the financial markets.
-

Question #146 of 151

Question ID: 415135

An investor buys 200 shares of ABC at the market price of \$100 on full margin. The initial margin requirement is 40% and the maintenance margin requirement is 25%.

If the shares of stock later sold for \$200 per share, what is the rate of return on the margin transaction?

- A) 400%.
 - B) 250%.
 - C) 100%.
-

Question #147 of 151

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 #148 of 151

Question ID: 415138

The initial margin is the:

- A) amount of cash that an investor must maintain in his/her margin account.
 - B) minimum amount of funds that must be supplied when purchasing a security on margin.
 - C) equity represented in the margin account at any time.
-

Question #149 of 151

Question ID: 415180

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

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

Question #150 of 151

Question ID: 415228

Which of the following statements on the forms of the efficient market hypothesis (EMH) is *least* accurate?

- A) The semi-strong form EMH addresses market and non-market public information.
 - B) The strong-form EMH assumes perfect markets.
 - C) The weak-form EMH states that stock prices reflect current public market information and expectations.
-

Question #151 of 151

Question ID: 415193

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

<i>As of December 31</i>		
<i>Company</i>	<i>Stock Price</i>	<i>Shares Outstanding</i>
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.