MONEY & BANKING (MGT411)
SPRING SEMESTER 2009
QUIZ # 02

MARKS: 20

Instructions:

Please read the following instructions carefully before attempting Quiz

- This Quiz covers lesson no 12- 22
- Last date for submission of quiz no 2 is April 16, 2009
- All instruction will be considered during checking quiz. So, consider all these.
- To attempt a quiz, students should be asked to submit their solution files (word documents) in the following shape / form.

<table>
<thead>
<tr>
<th>Q no.</th>
<th>Selected option</th>
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<tbody>
<tr>
<td>1</td>
<td>B</td>
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<tr>
<td>2</td>
<td>A</td>
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<tr>
<td>3</td>
<td>D</td>
</tr>
</tbody>
</table>

- Give the answer according to question.
- Don’t rely only on handouts, use other reference books also.
- Avoid choosing more than one option.
- Make sure that you upload the solution before due date. No solution will be accepted through E-mail after the due date.
- Cheating or copying of solution is strictly prohibited; No credit will be given to copied quiz.

Once you upload the quiz on LMS, it will not be replaced under any condition.

Quiz:

1. A decrease in the expected future interest rate makes bonds _____________.

   a. Less attractive
   b. More attractive
   c. Less expensive
   d. More expensive
2. As interest rate falls in recession, the bond prices are likely to___________.
   a. Decrease
   b. Increase
   c. Be stable
   d. Fluctuate

3. There is no guarantee that a bond issuer will make the promised payments is known as the:
   a. Default risk
   b. Inflation risk
   c. Interest rate risk
   d. Systematic risk

4. The greater the inflation risk, the __________ will be the compensation for it.
   a. Smaller
   b. Larger
   c. Zero
   d. None of the given options

5. __________ risk arises from the fact that investors don’t know the holding period yield of a long term bond.
   a. Default risk
   b. Inflation risk
   c. Interest rate risk
   d. Systematic risk

6. The __________ are an assessment of the creditworthiness of the corporate issuer.
   a. Bond yield
   b. Bond ratings
   c. Bond risk
   d. Bond rate

7. The lower a bond’s rating, the __________ will be its price.
   a. Higher
   b. Lower
   c. Equal to
   d. No change
8. A plot of the term structure with YTM on Y-axis and time to maturity on X-axis is called ___________.
   a. Demand curve  
   b. Supply curve  
   c. Yield curve  
   d. Laffer curve

9. Yields on short term bonds are ___________ than the yield on long term bonds.
   a. Less volatile  
   b. Higher  
   c. Lower  
   d. More volatile

10. The KSE 100 Index contains a representative sample of common stock that trade on the _____________.
    a. Lahore Stock Exchange  
    b. Karachi Stock Exchange  
    c. Islamabad Stock Exchange  
    d. New York Stock Exchange

11. The expectations theory of the term structure assumes:
    a. Buyers of bonds prefer bonds with longer maturities.  
    b. Buyers of bonds consider bonds of different maturities to be perfect substitutes.  
    c. Buyers of bonds prefer bonds with shorter maturities.  
    d. Markets for different maturity bonds are completely separate.

12. Yield curves show:
    a. The relationship between liquidity and bond interest rates (yields).  
    b. The relationship between risk and bond interest rates (yields).  
    c. The relationship between bond interest rates (yields) and bond prices.  
    d. The relationship between time to maturity and bond interest rates (yields).

13. Municipal bonds generally have lower interest rates than U.S. Government bonds because:
    a. They have less risk.  
    b. They are more liquid.  
    c. They never mature.
d. They are exempt from Federal taxes.

14. If the bond is selling above the face value than it is called:
   a. Discount
   b. Compound
   c. Premium
   d. None of the given options

15. Zero-Coupon bonds are sold at a price:
   a. Equal to their face value
   b. Below their face value
   c. Above their face value
   d. None of the given options

16. According to the ________ effect, an increase in the money supply lowers the interest rate.
   a. Price-level
   b. Liquidity
   c. Income
   d. Expected-inflation

17. The real interest rate is:
   a. The nominal rate plus the expected inflation rate
   b. The nominal interest rate/the CPI
   c. The product of the nominal rate and the CPI
   d. The nominal rate minus the expected inflation rate

18. For a coupon bond, the current yield is calculated as:
   a. Coupon Payment/Price
   b. The current yield is the same as the coupon rate.
   c. Coupon Payment/Face Value
   d. Coupon Payment/((Price + Face Value)/2)

19. Which of the following is a use for commercial bank funds?
   a. Loans
   b. Securities
   c. Reserves
   d. All of the given options
20. Financial intermediaries:

a. Channel funds from savers to borrowers
b. Greatly enhance economic efficiency
c. Have been a source of many financial innovations
d. Have done all of the above