California State University, Los Angeles
Department of Finance & Law

Review Quiz for the Final Exam

Dr. Daniel Lee **Fall 2012** **Name________________**

Fin403 **Last four digits of I.D. #_______**

PRINT your name and ID#

on the exam AND Scranton 882-E so that they are READABLE

Please put your answers on a Scantron (1.6 points each): Choose the BEST answer

Due Date: 11/27/2012 (T)

1. If the discount rate is 7.7%, find the future value of $920 invested for one year.
   a. 991
   b. 694
   c. 892
   d. 793

2. What is the coupon rate for a $1000 par value bond with semi-annual coupon, 12 years to maturity that sells for $1,219.42 if investors require a return of 8.35% on the bond?
   a. 10.15%
   b. 7.90%
   c. 11.28%
   d. 12.41%

3. You check the Wall Street Journal for bond prices and find that Galaxy Air's 6-year, $1000 par value bonds are selling for $1,169.94. The bonds pay a semi-annual coupon of $58.55. What is the yield to maturity (YTM) on the bonds?
   a. 10.50%
   b. 8.89%
   c. 9.70%
   d. 8.08%

4. Compute the present value of $936 received every year if the appropriate rate is 9.3% and you receive the money forever starting one year from now.
   a. 9,058
   b. 10,065
   c. 12,077
   d. 8,052

5. If the interest rate is 9.2%, what is the present value of payments of $912 growing at an annual 3.7% that are received every year forever with the first payment received one year from now?
   a. 14,924
   b. 11,607
   c. 13,265
   d. 16,582

6. Xerox, The Document Company plans to issue 10 year bonds. The bonds will make semi-annual coupon payments at an annual rate of 11.61%. The par value of the bonds will be $1000. If investors require a return of 10.39% on similar bonds, what will they be willing to pay for Xerox, The Document Company's bonds?
   a. 1,074.78
   b. 1,289.74
   c. 752.35
   d. 1,182.26

7. Compute the future value of $39 invested every month if the appropriate rate is 6.4% compounded every month and you invest the money for 4 years with the first payment made one month from now.
   a. 2,552
   b. 2,340
   c. 1,489
   d. 2,127

8. What is the present value of an annuity of $108 invested every quarter for the next 4 years starting one quarter from now at 11.7% compounded every quarter?
   a. 955
   b. 1,092
   c. 1,637
   d. 1,364

9. The treasurer at Amazon is trying to determine the expected return on equity for the firm. The stock's beta is 1.023, the current T-bill rate is 3.57%, and the expected market return is 17.71%. What is the expected return for Amazon stock?
   a. 12.6%
   b. 16.2%
   c. 18.0%
   d. 23.5%

10. Suppose you read in the Wall Street Journal that a bond with face value $1000 has an annual coupon rate of 11.92% and a price of $1,038.86. What is the bond's current yield?
   a. 9.18%
   b. 8.03%
   c. 14.92%
   d. 11.47%

11. Stock in Hughes STX Corporation has a beta of 1.612. The expected return on the stock is 16.61% and Treasury bills yield 5.13%. What is your best estimate of the market risk premium?
   a. 7.8%
   b. 9.3%
   c. 8.5%
   d. 7.1%

12. Compute the underlying rate of return on an investment if $1,560 invested today yields $1,783 in two years.
    a. 8.3%
    b. 9.0%
    c. 7.6%
    d. 6.9%

13. Compute the present value of $893 received after two years if the appropriate rate is 10.6%.
    a. 730
    b. 511
    c. 657
    d. 803

14. Angela Kidman expects to receive a return of 16.59% with a probability of 22%, a return of 4.54% with a probability of 18%, and a return of 12.10% with a probability of 60% from IT&T stock. What is the expected return on IT&T stock?
    a. 11.7%
    b. 15.2%
    c. 14.1%
    d. 12.9%

15. Intrava Technologies is expected to pay a dividend of $4.642 next year. Annual dividends are expected to grow at 5.49% forever. If investors require an annual return of 13.25% on Intrava Technologies's stock, what should the price of the stock be?
    a. 71.78
    b. 77.76
    c. 65.80
    d. 59.81

16. Goldman Sachs & Co. has experienced a steady annual growth of 6.03% per year in its annual dividend. This growth is expected to continue indefinitely. The last dividend paid was $3.45 per share. Investors require a 15.51% return on shares of similar companies. What should the price of Goldman Sachs & Co.'s shares be?
    a. 42.45
    b. 34.73
    c. 27.01
    d. 38.59

17. Find the present value of $12,360 invested every year at 11.4% for 16 years starting one year from now.
    a. 89,148
    b. 98,063
    c. 80,233
    d. 62,404

18. Judith Bass wishes to have $382,971 in a retirement account 15 years from now. What payment would Judith Bass have to make every year starting next year if the interest rate is 9.2%?
a. 10,272
b. 12,840
c. 11,556
d. 15,408

19. Jude Gunasekera plans to buy a personal computer and can afford to set aside $1,380 toward the purchase today. If the annual interest rate is 9.4% compounded every week, how much can Jude Gunasekera spend in four years on the purchase?
a. 2,411
b. 2,612
c. 2,009
d. 2,210

20. Compute the present value of $744 received after one year if the appropriate annual rate is 10.5% compounded every week.
a. 603
b. 871
c. 469
d. 670

21. Nicolette Tanner just made a payment of $89,389 for an RV by borrowing the amount. The amount is to be repaid in installments of $11,520 every year starting next year. How much time will it take to repay the amount if the appropriate annual rate is 11.4%?
a. 16 years
b. 18 years
c. 14 years
d. 20 years

22. If you borrow $112,289 for 19 years and pay $254 every week, what is the annual percentage rate (APR) on the loan?
a. 13.0%
b. 10.0%
c. 11.0%
d. 7.0%

23. O'Reilly Corp has experienced a steady growth in its annual dividend. The next dividend is expected to be $4.184 per share. If shares of O'Reilly Corp are currently selling for $55.72, and the required rate of return on the stock is 13.44%, estimate the rate of growth in dividends experienced by O'Reilly Corp?
a. 7.71%
b. 4.74%
c. 5.93%
d. 5.34%

24. What is the future value of an annuity of $9,360 invested every year for the next 12 years starting one year from now at 9.5%?
   a. 135,968
   b. 194,240
   c. 213,665
   d. 155,392

25. Bio-Pharma has just paid an annual dividend of $4.95. Dividends are expected to grow at a constant rate of 5.43% forever. If Bio-Pharma's stock is selling for $53.25, what is the return that is required by the investors?
   a. 18.28%
   b. 10.66%
   c. 13.71%
   d. 15.23%