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(Questions 1-27 = 2.75 pts)

1. The first time a company issues its stock to the public
  - A. Money market
  - B. Primary market
  - C. Initial public offering (IPO)
  - D. Dutch Auction
2. All security market except the organized exchanges; money market and corporate bonds are traded in this market
  - A. Seasoned equity offering
  - B. Over-the counter market
  - C. Capital market
  - D. Primary market
3. The required rate of return on a fixed-income security that has no risk in an economic environment of zero inflation
  - A. Real risk-free interest rate
  - B. Nominal of quoted rate of interest
  - C. Direct Sales
  - D. Inflation premium
4. Markets where you can buy or sell something at a future date
  - A. Venture capitalist
  - B. Futures market
  - C. Capital markets
  - D. Money market
5. All institutions and procedures that facilitate transactions for short-term instruments issued by borrowers with very high credit ratings
  - A. Spot market
  - B. Capital market
  - C. Money market
  - D. Secondary market
6. A market in which currently outstanding securities are traded
  - A. Secondary market
  - B. Primary market
  - C. Dutch Auction
  - D. Spot market
7. A financial specialist who underwrites and distributes new securities and advises corporate clients about raising new funds
  - A. Underwriter's spread
  - B. Private placement
  - C. Investment banker
  - D. Venture capitalist
8. The relationship between interest rate and the return to maturity, where the risk of default is held constant.
  - A. Real risk-free interest rate
  - B. Term structured of interest rate
  - C. Inflation premium
  - D. Default-risk premium

9. A wealthy private investor who provides capital for a business start-up  
A. Futures market  
**B. Angel Investor**  
C. Initial public offering  
D. Investment banker
10. The selling of securities by a corporation to the investing public without the services of an investment banking firm.  
A. Opportunity cost of funds  
B. Seasoned equity offering  
**C. Direct sale**  
D. Seasoned equity
11. An investment firm (or individual investor) that provides money to business start-up.  
A. Investment banker  
B. Underwriting  
**C. Venture capitalist**  
D. Angel Investor
12. A method of issuing securities by which investors place bids indicating how many shares they are willing to buy and at what price.  
A. Initial public offering  
**B. Dutch Auction**  
C. Direct Sale  
D. Syndicate
13. A premium to compensate for anticipated economic process that is equal to the price change expected to occur over the life of the bond or investment instrument.  
A. Maturity-risk premium  
**B. Inflation premium**  
C. Default premium  
C. Liquidity-risk premium
14. The rate of return a bondholder will receive if the bond is held to maturity.  
A. Default -risk premium  
**B. Yield at maturity**  
C. Nominal interest rate  
D. Maturity-risk premium
15. A security offering limited to a small number of potential.  
A. Initial Public Offering  
B. Seasoned Equity Offering  
**C. Private placement**  
D. Organized security exchange
16. All institutions and procedures that facilitate transactions in long-term financial instruments.  
A. Money market  
B. Primary market  
C. Secondary market  
**D. Capital market**
17. Formal organization that facilitate the trading of securities.  
A. Dutch Auction  
**B. Organized security exchange**  
C. Syndicate  
D. Over-the counter market

18. Spot markets
- A. A market in which currently outstanding securities are traded
  - B. Cash market
  - C. An investment firm (or individual investor) that provides money to business start-up
  - D. A market in which securities are offered for the first time for sale to potential investors
19. Nominal of quoted rate of interest
- A. The relationship between interest rate and the return to maturity, where the risk of default is held constant.
  - B. The rate of return a bondholder will receive if the bond is held to maturity.
  - C. The interest rate paid on debt securities, without an adjustment for any loss in purchasing power.
  - D. The required rate of return on a fixed-income security that has no risk in an economic environment of zero inflation
20. Primary market
- A. Markets where you can buy or sell something at a future date
  - B. A market in which currently outstanding securities are traded
  - C. A method of issuing securities by which investors place bids indicating how many shares they are willing to buy and at what price
  - D. A market in which securities are offered for the first time for sale to potential investors

Match # below	Term	#	Match the definition with the correct terminology
24	Underwriting	21	The next-best rate of return available to the investor for a given level of risk
25	Syndicate	22	The difference between the price the corporation raising money gets and the public the corporation raising money gets and the public offering price of the security
21	Seasoned equity offering	23	The purchase and subsequent resale of a new security issue. The risk of selling the new issue at a satisfactory price is assumed by the investment banker
22	Opportunity cost of funds	24	A group of investment bankers who contractually assist in the buying and selling of a new security issue
23	Underwriter's spread	25	The sales of additional stock by a company whose shares are already publicly traded

26. Functions of an Investment Bankers
- A. Underwriting & Distributing
  - B. Advising
  - C. A only
  - D. A nor B
  - E. Both A and B
27. Some advantage of a Private Debt Placements
- A. Faster to raise money
  - B. Reduces flotation costs
  - C. Offers financing flexibility
  - D. None of the above
  - C. All of the above
28. What are the three ways to transfer capital in the economy? (6 pts)
- Financial intermediary, investment banks, or direct transfers.

Table 1. Calculating the nominal interest rate (20 pts)

	1	2	3	4	
	3-month Treasury Bills %	30-yr Treasury Bonds %	30-yr Aaa Rated Corporate Bonds %	Inflation Rate %	
(A) output	4.75	5.25	6.25	3.50	
(B) output	4.90	5.50	6.50	3.25	
	Table Formula		Equation	(A) results	(B) results
	(1) - (4)		real risk-free interest rate	1.25	1.65
	4		inflation premium	3.50	3.25
	(3) - (2)		default-risk premium	1	1
	(2) - (1)		maturity-risk premium	0.5	0.6
			liquidity-risk premium	.05	.04
			<b>nominal interest rate =</b>	<b>6.3</b>	<b>6.5</b>

- A. Assumed you are the chief financial officer at Johnson and Johnson (JNJ) and you were asked by your chief executive at the beginning of the year to conduct research to find the following: The current 3-month Treasury bill rate is 4.75 percent, the 30-year Treasury bond rate is 5.25 percent, the 30-year Aaa rated corporate bond rate is 6.25 percent, and the inflation rate is 3.50 percent. Finally, you have estimated that JNJ bonds will have a slight liquidity-risk premium of .05 percent because of the infrequency with which they are traded. You place your output into the format of equation from Table 1 so that the nominal interest rate can be estimated and the size of each variable can also be inspected for reasonableness and discussion with the chief executive office your nominal interest rates finding.
- B. Now assumed at the end of the year you were asked to conduct the same research and find the following: The current 3-month Treasury bill rate is 4.90 percent, the 30-year Treasury bond rate is 5.50 percent, the 30-year Aaa rated corporate bond rate is 6.50 percent, and the inflation rate is 3.25 percent. Also, the the liquidity-risk premium of .04 percent. What is the finding of your nominal interest rates at year-end?