

## Finance 1 Final Exam (Chapters 5-8)

### Multiple Choice

Identify the choice that best completes the statement or answers the question.

- \_\_\_\_\_ 1. The present value of an annuity will be decreased by
- a.
  - b.
  - c.
  - d.
  - e.
- \_\_\_\_\_ 2. You have borrowed \$130,000 to buy a new motor home. Your loan is to be repaid over 15 years at 8% compounded monthly. Calculate the principal paid to the bank in month 2 of the loan.
- a.
  - b.
  - c.
  - d.
- \_\_\_\_\_ 3. A car loan that charges 1.25% interest per month has an annual percentage rate of
- a.
  - b.
  - c.
  - d.
- \_\_\_\_\_ 4. Alabama Power has preferred stock that pays an annual dividend of \$9.44. If the security has no maturity, what is its value to an investor who wishes to obtain a 9 percent rate of return?
- a.
  - b.
  - c.
  - d.
- \_\_\_\_\_ 5. If you owe \$1,200.00, which is the most advantageous way to pay it back assuming a 12% APR discount rate?
- a.
  - b.
  - c.
  - d.
- \_\_\_\_\_ 6. Which of the following \$1,000 face value bonds has a 10% yield, assuming semiannual coupon payments of 8%?
- 1) a 5 year maturity bond selling for \$964.54
  - 2) a 10 year maturity bond selling for \$875.39
  - 3) a 20 year maturity bond selling for \$828.36
- a.
  - b.
  - c.
  - d.
- \_\_\_\_\_ 7. When interest rates decrease, what happens to the bond prices of seasoned issues (assume the coupon rate is fixed)?
- a.
  - b.

- c.  
d.
- \_\_\_ 8. How is preferred stock similar to bonds?  
a.  
b.  
c.  
d.  
e.
- \_\_\_ 9. Nearly all preferred stock comes with the right to receive all past unpaid dividends before common shareholders can receive any dividends. This right is referred to as:  
a.  
b.  
c.  
d.
- \_\_\_ 10. The efficient market hypothesis asserts that:  
a.  
b.  
c.  
d.
- \_\_\_ 11. The current price of Zebar is \$32.00 and its last dividend was \$.60. What is its return if dividends are expected to grow indefinitely at 8 percent?  
a.  
b.  
c.  
d.

### Problem

12. You have been assigned to estimate the interest rates that your company may have to pay when borrowing money in the near future. The following information is available.  
 $k_{PR} = 2\%$   
 $MR = .1\%$  for a 1 year loan increasing by .1% for each additional year  
 $LR = .05\%$  for a 1 year loan increasing by .05% for each additional year  
 $DR = 0$  for a 1 year loan, .2% for a 2 year loan, increasing .1% for each additional year  
 Expected Inflation Rates  
     Year 1 = 7%  
     Year 2 = 5%  
     Year 3 and thereafter = 3%
- a. Calculate the inflation adjustment (INFL) for a 5-year loan.  
b. Calculate the appropriate interest rate for a 5-year loan.
13. One year ago a \$1,000 face value, 6% coupon bond was selling for \$1,100. Since then, the market yield has decreased by two percentage points. The bond pays interest semiannually and now has four years to maturity. What is the bond's price today?

