

Name: \_\_\_\_\_ N° \_\_\_\_\_

**Monetary and Financial Economics**  
Instituto Superior de Economia e Gestão

**Progress Assessment Test, 14 April 2015, Duration of the test: 45 minutes**

1. **Fill in the response grid on this page**, making a cross (X) on the correct answer. In case of error, cross over and put the cross in another box.
2. A right answer will be marked +1 point. A wrong answer will be marked -0.2 points.
3. Reply only if you think there is a high probability of being the correct answer. If you have many doubts leave it blank.
4. **It is not allowed to use mobile phones, calculators, or computers. Improper use will lead to cancellation of the test.**
5. The student may only leave the room after the test has finished.
6. The student gives back both the answer page and the questions pages.

Good luck!

**Answer Grid:**

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)
b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)
c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)
d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)

### 1. The money market

- A) Is the market where money is traded.
- B) Is the market where debt securities over one year are traded.
- C) Is the market where the monetary authority intervenes.
- D) A and B.

### 2. The idiosyncratic risk

- A) It is a form of systemic risk.
- B) Increases with the decrease of the systemic risk.
- C) It is the opposite of the systemic risk.
- D) None of the above is true.

### 3. In a portfolio with two risky assets, how is it possible that the risk of the portfolio is lower than the risk of the asset with the lowest risk:

- A) The correlation coefficient is 0.
- B) The correlation coefficient is +1.
- C) The correlation coefficient is +3.
- D) None of the above is true.

### 4. Say which is the wrong answer: the efficient frontier is the geometric locus of the portfolio investment opportunities that meet the following conditions.

- A) For a given expected return there are no other portfolios with lower risk.
- B) For a given level of risk there are no other portfolios with higher expected return.
- C) For a given expected return there are other portfolios with the same risk.
- D) There are no other portfolios with higher expected return and lower risk.

### 5. To obtain an optimal portfolio the investor should

- A) Determine the tangency point of the efficient frontier with the lowest indifference curve.
- B) Determine the tangency point of the investment opportunity set to the highest indifference curve.
- C) Determine the tangency point of the investment opportunity set to the utility function.
- D) Determine the tangency point of the efficient frontier to the highest indifference curve.

### 6. According to the Fisher Effect if there are expectations of increasing inflation:

- A) The supply and the demand for bonds increase, bond prices increase and the interest rate decreases.
- B) The supply and the demand for bonds decrease, bond prices decrease and the interest rate increases.
- C) The supply for bonds increases and the demand for bonds decreases, bond prices decrease and the interest rate increases.
- D) The supply for bonds increases and the demand for bonds decreases, bond prices increase and the interest rate decreases.

### 7. The segmentation market theory explains why:

- A) When the expectations are for an increase in the interest rates, the slope of the yield curve is positive.
- B) The yield curve has a positive slope when the short term interest rates are low.
- C) The yield curve usually has a positive slope.
- D) A) and B).

**8. The coupon yield is equal to**

- A) The coupon rate.
- B) The coupon rate times the face value.
- C) The interest rate times the face value.
- D) The interest rate.

**9. The generalised dividend valuation model model**

- A) Admits dividend growth in two phases.
- B) Assumes constant dividends throughout time.
- C) Implies the estimation of an infinite number of dividends.
- D) Assesses the stock price only via the actual value of dividends.

**10. In the Gordon model, if the market price of a stock is 170 EUR, the growth rate of the dividends is 2%, and the expected return is 5%, what was the last distribution of dividends?**

- A) 4.00 EUR.
- B) 5.00 EUR.
- C) 50.00 EUR.
- D) 45.00 EUR.

**11. The risk of a portfolio with two assets is smallest when**

- A) The correlation coefficient is +1.
- B) The correlation coefficient is -1.
- C) The correlation coefficient is +0.5.
- D) The correlation coefficient is -0.5.

**12. The yield to maturity of a bond**

- A) Is the interest rate that equalises the value of all future cash flows, received by the holder of the bond, to the price.
- B) Is the interest rate that equalises the actual value of all future cash flows, received by the holder of the bond, to the face value.
- C) Is the interest rate that equalises the actual value of all future cash flows, received by the holder of the bond, to the price.
- D) None of the above is true.

**13. If bond supply is lower than bond demand**

- A) The price of the bonds is above the equilibrium price and the interest rate is below the equilibrium interest rate.
- B) The price of the bonds and the interest rate are above the respective equilibrium level.
- C) The price of the bonds is below the equilibrium price and the interest rate is above the equilibrium interest rate.
- D) The price of the bonds and the interest rate are below the respective equilibrium level.

**14. The higher the maturity of a bond**

- A) The higher the interest rate risk.
- B) The higher the coupon returns.
- C) The higher the current yield.
- D) None of the above is true.

**15. The risk premium is**

- A) The difference between the higher interest rate of a higher risk security and the lower interest rate of lower risk security.
- B) The difference between the higher interest rate of a less liquid security and the lower interest rate of more liquid security.
- C) The difference between the higher interest rate of a security with a less favourable tax regime and the lower interest rate of a security with a more favourable tax regime.
- D) All of the above are true.

**16. Money is an instrument that**

- A) Can only be used as a store of value.
- B) Pays a higher return than most assets.
- C) Does not have a fixed supply.
- D) None of the above is true.

**17. Financial intermediaries**

- A) Are important to decrease asymmetric information problems.
- B) Have as single activity receiving deposits and giving credit.
- C) Cannot make investments in the capital markets.
- D) Cannot make investments in the money market.

**18. The secondary market**

- A) Is the market in which securities are traded for the first time.
- B) Is an alternative to the primary market.
- C) Corresponds to direct financing to the counterparts.
- D) None of the above is true.

**19. M2 includes:**

- A) Deposits with an agreed maturity up to 2 years.
- B) Debt securities up to 2 years.
- C) Deposits redeemable at a period of notice up to 3 months.
- D) A and C.

**20. What would be the costs for the economy if there was a decrease in the efficiency of the payment system?**

- A) Transactions would be cheaper; the economy would not benefit from specialization.
- B) Transactions would be more expensive; the economy would not benefit from specialization.
- C) The economy would not be affected since transactions would always take place.
- D) None of the above is true.