Name: ____ Nº __________ Class _______

Monetary and Financial Economics
Instituto Superior de Economia e Gestão

Progress Assessment Test - 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!

Correct answer in ITALICS

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. Having present Tobin's Separation Theorem a portfolio of assets can have a return higher than the one of the market portfolio if:
A) The investor is indebted in the free risk asset.
B) There is a long position in the free risk asset.
C) There is short position in the risky asset.
D) There is a negative position in the risky asset.

2. In a portfolio with two risky assets, the investment opportunity set is:
A) A line with a positive slope if the correlation coefficient is -1.
B) *Two lines, one with a negative slope and one with a positive slope if the correlation coefficient is -1.*
C) A line with negative slope if the correlation coefficient is -1.
D) Two lines, one with a negative slope and one with a positive slope if the correlation coefficient is +1.

3. Which of the following statements is <u>not</u> a hypothesis of the Markowitz model?
A) Investors are rational and have risk aversion.
B) Securities are infinitively divisible.
C) The financial market is efficient.
D) Investors do not have identical expectations, and attribute different probabilities to the assets' expected rates of return.

4. In the context of the Capital Market Line, the weight of the free risk asset in the portfolio,
A) Increases with the risk of the market portfolio.
B) Increases with the risk of the risk free asset.
C) Decreases with the risk of the market portfolio.
D) Increases with return of the risk free asset.

5. When the growth rate of the dividends is higher than the expected rate of return of the stock of an enterprise:
A) It will not be possible for the enterprise to keep that situation in the long run.
B) This stock is a good investment.
C) The enterprise can grow in a sustainable way.
D) This stock is not a good investment.

6. In the context of the Gordon model, the price of a stock is higher when:
A) Current dividends are decreasing.
B) The interest rate of the risk free asset is low.
C) The risk premium of the stock is high.
D) The growth rate of dividends is constant.

7. The added value rate of a bond is equal to:
A) The sum of the coupon yield with the current yield.
B) Difference between the rate of return and the current yield.
C) The division of the coupon yield by the market price of the bond.
D) The sum of the current yield with the change in the market price of the bond.

8. The yield to maturity of a bond

A) Is the interest rate that equals the value of all payments, received by the holder of the bond, to the price of the bond.
B) Is the interest rate that equals the actual value of all payments, received by the holder of the bond, to the bond's actual value.
C) Is the interest rate that equals the actual value of all payments, received by the holder of the bond, to price of the bond.
D) None of the above is correct.

9. Compute the interest rate of a zero coupon bond with maturity of one year, face value of 1133€ that is traded at 1000€.

A) Approximately 1.3%.
B) Approximately 13.3%.
C) Approximately 11.7%.
D) None of the above is correct.

10. If the supply of bonds is lower than the demand for bonds...

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

11. The interest rate risk is higher

A) The lower the bond maturity.
B) The more important are the coupon returns.
C) The higher the buying price of the bond.
D) None of the above is true.

12. During high growth periods

A) Supply and bond demand increase, bond price increases and interest rate decreases.
B) Supply and bond demand decrease, bond price decreases and interest rate increases.
C) Supply and bond demand decrease, bond price increases and interest rate decreases.
D) Supply and bond demand increase, bond price decreases and interest rate increases.

13. The yield curve

A) Is the graphical representation of one interest rate's term structure.
B) Allows the forecasting of future interest rates.
C) Has, on average, a negative slope.
D) None of the above is true.

14. Considering the original maturity of a financial contract

A) We can distinguish between primary and secondary market.
B) We can distinguish between monetary market and capital market.
C) We can distinguish between stock market and bond market.
D) *None of the above is true.*

15. Asymmetric information in financial contracts:
A) Stems from default risk.
B) Is the consequence of moral risk and adverse selection.
C) Occurs always before the financial transaction.
D) None of the above is true.

16. The following are not included in M2
A) Deposits with an agreed maturity up to 2 years.
B) Deposits redeemable at a period of notice up to 3 months.
C) Debt securities up to 2 years.
D) A and B.

17. Which statement better describes money as a mean of exchange?
A) Money immediately ensures double coincidence of wants.
B) Money requires at least 2 transactions to attain the double coincidence of wants.
C) Money only occasionally guarantees the double coincidence of wants.
D) None of the above is true.

18. The concept of risk in an investment is
A) A measure of dispersion for the future returns of the investment.
B) Measured for a given time span.
C) Measured relatively to a reference value.
D) All of the above.

19. Systemic risk is
A) The opposite of the idiosyncratic risk.
B) Increases with the diversification of the portfolio.
C) Decreases with the diversification of the portfolio.
D) None of the above is true.

20. Leverage is a process that
A) Increases the possibilities of investment.
B) Decreases the risk of the investments.
C) Decreases the expected return of investments.
D) None of the above is true.