



Name: \_\_\_\_\_ N° \_\_\_\_\_ Class \_\_\_\_\_

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

**Progress Assessment Test, 30 March 2017, 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 idiosyncratic risk**

- A) Is the opposite of systemic risk.
- B) Cannot be reduced via diversification.
- C) *None of the other answers is true.*
- D) Has effect on an entire sector of activity.

**2. In direct financing:**

- A) Agents with excess liquidity place their savings in bank deposits.
- B) *Agents with excess liquidity buy securities in the primary market.*
- C) Agents with excess liquidity sell securities in the primary market.
- D) None of the other answers is correct.

**3. In the secondary market**

- A) Takes place the direct transfer of funds from financing agents to investors.
- B) Takes place the indirect financing.
- C) *There are no financing transactions of the economy.*
- D) None of the other answers is correct.

**4. Banks finance the economy**

- A) Selling securities in the secondary market.
- B) Buying securities in the secondary market.
- C) *None of the other answers is correct.*
- D) Accepting deposits.

**5. A risk averse investor**

- A) Never invests without knowing for sure what the return will be.
- B) Is not representative of financial markets' investors.
- C) Only invests in risk free assets.
- D) *None of the other answers is correct.*

**6. The leverage process**

- A) Cannot contribute to the increase of the expected return of investments.
- B) Cannot contribute to increase the possibility of financing investments.
- C) Decreases the risk of the investments.
- D) *Increases the risk of the investments.*

**7. Which of the following is not a hypothesis of the Markowitz model:**

- A) Investors are rational and are risk averse.
- B) Securities are infinitely divisible.
- C) The financial market is efficient.
- D) *Investors do not have identical expectations, and attribute different probabilities to the securities' expected returns.*



**8. In the context of Tobin's separation Theorem, a portfolio of assets can give a return higher than the market's portfolio return when:**

- A) *There is borrowing in the risk free asset.*
- B) There is borrowing in the market portfolio.
- C) There is borrowing in the risky asset.
- D) There is borrowing in stocks.

**9. In a portfolio with two risky assets, the opportunity investment set is depicted by:**

- A) Two lines with a positive slope if the correlation coefficient is -1.
- B) Two lines, one with a zero slope and another with a positive slope if the correlation coefficient is -1.
- C) A hyperbole if the correlation coefficient is -1.
- D) *Two lines, one with a negative slope and another with a positive slope if the correlation coefficient is -1.*

**10. A portfolio with two risky assets can have a risk below the asset's lower risk when:**

- A) The correlation coefficient is +1.15.
- B) The correlation coefficient is -1.15.
- C) The correlation coefficient is +1.
- D) *The correlation coefficient is -1.*

**11. Consider the following Efficient Frontier for two assets in a given economy. Say which asset is in the Efficient Frontier:**

$$\sigma_p^2 = 21\bar{R}_p^2 - 180\bar{R}_p + 600 \quad (\bar{R}_p \geq 4, 286\%) \quad .$$

- A) Expected return, 0.15 and standard deviation, 0.30.
- B) Expected return, 0.05 and standard deviation, 0.25.
- C) *Expected return, 0.10 and standard deviation, 0.30.*
- D) Expected return, 0.05 and standard deviation, 0.20.

**12. Portfolio diversification:**

- A) Increases the systemic risk.
- B) Reduces the risk of the risk free asset.
- C) *Reduces the idiosyncratic risk.*
- D) Eliminates the systemic risk.

**13. Which is the wrong answer. The Efficient Frontier is the geometric space of investment opportunities of the portfolios that meet the following conditions:**

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

**14. When the yield to maturity of a bond is lower than the coupon rate that implies that:**

- A) *The face value of the bond is lower than its price.*
- B) The rate of return is lower than the yield to maturity.
- C) The bond trades below par.
- C) The face value is lower than the coupon's return.



**15. The higher the maturity of a bond,**

- A) The higher the expected return of the bond.
- B) *The higher is the interest rate risk.*
- C) The higher is the return of the coupon.
- D) None of the other statements is correct.

**16. A reduction in the expected inflation rate**

- A) *Increases the bond demand.*
- B) Decreases the bond demand.
- C) Increases the yield of the bonds.
- D) B and C.

**17. During an economic boom**

- A) The bond demand increases.
- B) The bond supply increases.
- C) The yield tends to increase.
- D) *All the other statements are correct.*

**18. According to the market segmentation theory, a negatively sloped yield curve implies:**

- A) The dominant expectations of the agents in the market are for a rise in interest rates.
- B) The dominant expectations of the agents in the market are for a fall in interest rates.
- C) The dominant expectations of the agents in the market are for unchanged interest rates.
- D) *None of the other statements is correct.*

**19. C is the coupon, P is the market price of a bond, and i is the interest rate, then  $i=C/P$  is:**

- A) The current yield.
- B) The interest rate of a consol.
- C) *A and B.*
- D) None of the other statements is correct.

**20. When the risk of a bond increases and at the same time the supply of the bond increases**

- A) The price of the bond increases.
- B) *The yield of the bond increases.*
- C) The yield of the bond decreases.
- D) None of the other statements is correct.