LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

Monetary and Financial Economics
Instituto Superior de Economia e Gestão

Exam – 20 June 2020 - **Duration: 1h 30mns**

Part A – MCQ [80 points = 4 points * 20 MCQ]

1. Considering the original maturity of a financial contract:
    A. There is a distinction between primary market and secondary market.
    B. There a distinction between monetary market and capital market.
    C. There is a distinction between stock market and bond market.
    D. None of the other answers is correct.

2. The quantification of the risk of a financial investment,
    A. Allows the comparison o that risk with alternative investments.
    B. Allows eliminating the uncertainty associated to that investment.
    C. Is not necessary if the investor is risk averse.
    D. None of the other answers is correct.

3. To obtain the optimal portfolio and investor needs to:
    A. Determine the tangency point between the efficiency frontier and the lowest indifference curve.
    B) Determine the tangency point between the opportunity set and the highest indifference curve.
    C) Determine the tangency point between the efficiency frontier and utility function.
    D) Determine the tangency point between the efficiency frontier and the highest indifference curve.

4. The efficiency frontier is the geometric locus of the opportunity investment portfolios that respect the following conditions. Choose the wrong statement:
    A. For a certain rate of return there are no other portfolios with lower risk.
    B. For a certain rate of return there are no other portfolios with higher rate of return.
    C. For a certain rate of return there are other portfolios with the same risk.
    D. There are no other portfolios with a higher return and lower risk.

5. In the context of Tobin's Separation Theorem, a portfolio of assets can provide a return that is higher than the market 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.

6. Comparing with other derivatives, the main advantage of a forward contract is:
    A. Its flexibility.
    B. The price.
    C. The amount.
    D. The designation.

7. Speculators differ from hedgers because:
   A. Who covers the risk transfers the risk to someone else.
   B. Who speculates transfers the risk to someone else.
   C. Both try to reduce the exposition to risk.
   D. None of the other answers is correct.

8. If in a given country the nominal interest rate increases due to the increase in the expected inflation rate, with the real interest rate constant, this generates expectations of _____________ of the domestic currency and, therefore, generates expectations of ___________ in the return of an investment in the foreign country.
   A. Depreciation; increase.
   B. Appreciation; increase.
   C. Depreciation; decrease
   D. Appreciation; decrease.

9. An increase of wealth in Europe, everything else constant, will cause:
   A. An increase in supply of euros.
   B. A decrease in demand and supply of euros.
   C. No changes in demand and supply of euros.
   D. None of the other answers is correct.

10. It is not considered a determinant factor of a financial crisis:
   A. None of the other answers is correct.
   B. Fast increases in interest rates.
   C. The increase in uncertainty.
   D. The deterioration of the banks' balance sheet.

11. The coupon payment of a bond:
   A. Is equal to the product of the face value of the bond times the coupon interest rate.
   B. Is equal to the interest rate of the bond.
   C. Depends of the market price of the bond.
   D. Is equal to the product of the face value of the bond times its price.

12. Considering the bond market:
   A. When the price of a bond is at par, the bond has a zero return.
   B. When the price of a bond is below par, the interest rate is below the coupon rate.
   C. When the price of a bond is below par, the interest rate is above the coupon rate.
   D. None of the other answers is correct.

13. During strong economic growth, normally we observe in the bond market:
   A. An increase in supply, an increase in demand and a decrease in equilibrium interest rates.
   B. A decrease in demand, an increase in supply and an increase in equilibrium interest rates.
   C. A decrease in supply, an increase in demand and a decrease in equilibrium interest rates.
   D. An increase in supply, an increase in demand and in increase in equilibrium interest rates.

14. The rate of return of an investment in bonds:
    - A. Tends to increase during the investment period if there is a general increase in interest rates.
    - *B. Tends to decrease during the investment period if there is a general increase in interest rates.*
    - C. Is independent of the change in interest rates during the investment period.
    - D. Will be higher the higher the bond maturity.

15. In the context of Gordon's Model, the price of a stock will be higher,
    - *A. The higher the current dividends.*
    - B. The lower the constant growth rate of the dividends.
    - C. The higher the stock risk premium.
    - D. The higher the interest rate of the risk free asset.

16. According to the Quantitative Theory of Money:
    - *A. The velocity circulation of money depends of the institutions and of the individual's preferences for the methods of payment.*
    - B. In the short run, the velocity circulation of money cannot be considered constant.
    - C. Money is not neutral.
    - D. Real income depends of the quantity of money.

17. Regarding the Eurosystem,
    - A. The main purpose is to keep price stability in the euro area, at value above 3%.
    - B. It must answer to the European Commission.
    - C. It cannot conduct exchange rate operations in foreign currency.
    - *D. It must promote the well-functioning of the payment system.*

18. In the model of money supply, the credit divisor, k,
    - A. Is the inverse o the money multiplier.
    - *B. All the other answers are correct.*
    - C. Corresponds to the monetary base necessary to originate a unit of M.
    - D. Multiplied by the monetary aggregate is equal to the monetary base.

19. A contractionary monetary policy,
    - A. Has a "wealth" effect that is associated to the increase in stock prices.
    - B. Implies an increase in Tobin's q.
    - *C. Can decrease the available liquidity of MFIs and provoke a decline in the credit provided.*
    - D. None of the other answers is correct.

20. Monetary policy instruments are:
    - A. Legal reserve policies.
    - B. Discount policies.
    - C. Operations to provide and absorb liquidity.
    - *D. All the other answers are correct.*