

FIM THEORY

MPC

1. What is the most accurate measure of interest rates?

- a) Current Yield
- b) Nominal Interest Rate
- c) Simple Interest Rate
- d) Yield to Maturity

2. Which statement is not correct?

- a) Municipal bonds tend to have a lower yield than Treasuries
- b) Municipal bonds tend to have a lower rating than Treasuries
- c) Municipal bonds are “risk free” securities
- d) Municipal bonds are an interesting investment from a tax perspective

3. What is the correct order from short maturity to long maturity?

- a) Treasury bill – Treasury note – Treasury bond
- b) Treasury note – Treasury bill – Treasury bond
- c) Treasury bill – Treasury bond – Treasury note
- d) Treasury note – Treasury bond – Treasury bill

4. Asymmetric information

- a) means that investors may be subject to adverse selection
- b) means that investors may be subject to moral hazard problems
- c) may hinder the efficient operation of financial markets
- d) All three statements are correct

5. In which situation will demand for bonds decrease?

- a) When wealth increases
- b) When expected interest rates increase
- c) When expected inflation decreases
- d) When expected return of bonds relative to other assets increases

6. In which country is funding through bank loans the least popular when compared to other financing options?

- a) Canada
- b) Germany
- c) Japan
- d) United States

7. What does ‘deleveraging’ mean?

- a) Financial institutions cutting back in lending
- b) Financial institutions cutting back in capital
- c) Financial institutions dealing with a bank run
- d) Financial institutions buying CDO’s

8. What is not an illustration of the European sovereign debt crisis around 2011?

- a) Interest rates converging to very low levels
- b) Dealing with lower tax revenues
- c) High outlays for bailouts of financial institutions
- d) Fear of European governments default

9. Historically, which type of debt instrument pays investors the highest gross interest rate?

- a) A rated corporate bonds
- b) BB rated corporate bonds
- c) Treasury bills
- d) Treasury bonds

10. In the news: Recently, the malware Wannacry infected many computers worldwide. In order to recover their file, the victims had to pay a certain amount. In what currency was the payment required?

- a) Bitcoin
- b) Euro
- c) Russian Roebel
- d) US Dollar

1. Which is the biggest market in terms of value (amounts outstanding)?

- a) Debt market
- b) Bond market
- c) IPO market
- d) Equity market

2. Which of the following statements are correct?

- a) Financial intermediaries (Banks) operate in indirect finance
- b) Eurobonds are denominated in Euros
- c) Listed stock trade on money markets
- d) Economies of scale occur when banks use the same info about customers for multiple services: loans & car insurance

3. An increase in _____ factor, lowers demand for an asset

- a) Wealth
- b) Risk
- c) Expected return
- d) Liquidity

4. What happens when: the amount of people that are willing to sell is greater than the amount of people willing to buy at a given price?

- a) Crash
- b) Equilibrium
- c) Excess Supply

d) Excess demand

5. What does the EMH not suggest?

- a) Stocks with low returns today tend to have high returns in the future ☑ **Mean Reversion**
- b) Mutual funds should not be able to consistently beat the market
- c) Future changes in stock prices should be unpredictable
- d) Technical analysis is a waste of time

6. What is the main source of External funds for non-financial businesses in Germany, Japan & Canada?

- a) non-bank loans
- b) **Bank loans**
- c) Bonds
- d) Stocks

7. Who's S&P 500 helped Warren Buffet win his 2008-2018 bet against hedgefunds?

- a) **Jack Bogle's**
- b) Berkshire Hathaway
- c) Raj Rajaratnam
- d) Freddie Mac

8. Which is not a characteristic explaining the success of ECN's ?

- a) Transparency
- b) **Financial regulation**
- c) After Hours Trading
- d) Cost reductions

9. Many savers are not interested in their bank's financial health because of the _____

- a) Disclosure requirements
- b) **Deposit Insurance**
- c) Accurate Accounting Standard
- d) High level of bank capital

10. If you believe that there will be no bankruptcies in the future and the economy will do well, then which bonds will you buy if you want the highest return?

- a) Investment grade bonds
- b) Municipal Bonds
- c) Non-investment grade bonds
- d) Government bonds

11. What is the main activity of lawyers in LONDON & WALL STREET?

- a) **Reviewing complicated financial contracts to prevent problems**
- b)
- c)

d)

12. What happens when: the amount of people that are willing to buy is greater than the amount of people willing to sell at a given price?

- a) Crash
- b) Equilibrium
- c) Excess Supply
- d) Excess demand

13. Which of the following statements is wrong?

- a) Yield to maturity and bond price are negatively related
- b) It may be possible that we get interest rates of -4% sometime
- c) The real interest rate is always lower than the nominal interest rate
- d) The longer the maturity of the bond, the more the return may change when interest rates change

1. Which of these is not correct?

- a) When interest rates are negative, investors prefer to be paid 1 US Dollar today rather than 1 US Dollar in a year's time
- b) When there is inflation, the real interest rate is lower than the nominal interest rate
- c) When a bond price is at par, the yield equals the coupon rate
- d) Real interest rates more accurately reflect the true cost of borrowing

2. When will an investor buy bonds instead of shares?

- a) When the liquidity of bonds increase and the expected return of shares increase
- b) When the liquidity of bonds decrease and the expected return of shares decrease
- c) When the liquidity of bonds increase and the risk of shares increase
- d) When the liquidity of bonds decrease and the risk of shares decrease

3. Which rating agency rightly predicted the collapse of the subprime mortgage market?

- a) Moody's
- b) Fitch
- c) Standard & Poor's
- d) None of rating agencies mentioned above

4. At a given time, we compare the yields of 10 Year maturity bonds in USD. Below, you see the yields of high and low credit quality corporate bonds, municipal bonds and US government bonds on the same day. Which of these yields was the yield of the 10 year maturity US government bond on that date?

- a) 1.65%
- b) 2.09%
- c) 3.53%
- d) 4.29%

5. Which U.S. president succeeded in decreasing the national/federal U.S. government debt during his presidency?

- a) Bill Clinton
- b) George W. Bush
- c) Barack Obama
- d) None of the U.S. presidents mentioned above

6. Which bonds will almost certainly see their value going to zero in case of bankruptcy of the issuer of the bonds?

- a) debentures
- b) subordinated bonds
- c) secured bonds
- d) convertible bonds

7. Who ended up in jail for insider trading?

- a) Warren Buffet
- b) Raj Rajaratnam
- c) Jack Bogle
- d) Freddie Mac

8. Which of the following is not a characteristic explaining the success of ECN's

- a) Transparency
- b) Cost reduction
- c) Correct execution
- d) After-hours trading

9. You have savings of USD 100,000. What is your cash position, after you bought and paid 12 shares of Amazon at USD 1,150 and three bonds of Amazon at an issue price of 101.50% with a redemption price of 100.00% and denominations of USD 1,000 and coupon of 2.00%?

- a) USD 83,155
- b) USD 83,200
- c) USD 85,985.50
- d) USD 100,000

10. Which internet company that was already listed in New York obtained a listing on the Hong Kong stock market in November 2019?

- a) Alibaba
- b) Amazon
- c) Facebook
- d) Google

1. Bond Demand Curve; what will shift the demand curve right?

- a) Increase in Liquidity
- b)

- c)
- d)

2. Who said “10-year bet: buying market is better than investing in hedgefunds.”

- a) Warren buffett
- b)
- c)
- d)

3. Which is Germany’s Index?

- a) DAX
- b) FTSE ☐ London
- c) CAC ☐ Paris
- d) BEL20 ☐ Brussels

4. 10year USD bond, which will have the lowest gross (before tax) YTM?

- a), Munies,
- b) Government
- c) Aaa,
- d) Baa

5. Which theory explains why bonds with different maturities are substitutes?

- a) Liquidity Premium Theory
- b) Expectations theory
- c)
- d)

6. Which of these statements are false?

- a) The real interest rate is always lower than the nominal interest rate ☐ Real interest rate can go -ve but nominal interest rate cannot
- b)
- c)
- d)

7. Which Which is NOT a credit rating Agency?

- a) Fannie Mae
- b) Moody’s
- c) S&P – standards and Poor
- d) Fitch

8. Unfavorable EMH evidence?

- a) Mean Reversion
- b) Random walk behaviour,
- c) technical analysis is a waste of time/cannot outbeat the market
- d) be sceptical of hot tips

9. Which Instrument is similar to stocks and bonds?

- a)
- b) STRIPS
- c) Convertible bonds
- d) Agency debt

10. On July 29th 2021, which stock had their IPO on the NASDAQ

- a) RobinHood
- b) Redditt
- c)
- d)

Open Questions

- 1) What is the expected effect on interest rates when there is a business cycle expansion? Please explain in words and by drawing a figure.
- 2) What is the relationship between risk premiums and bond ratings?
- 3) a) Which three term structure facts should a good theory explain?
b) Which theory best explains these three term structure facts?
- 4) Give two examples of favorable evidence on efficient market hypothesis
- 5) Explain: deposit insurance, provided by the government, reduces the incentive for depositors to monitor the bank.

(1) What is the relationship between financial crises, regulation and asymmetric information?

(1) You are the CFO of a company & the CEO wants you to tell him which evolution we will see in interest rates in the near future (say this year & next year). What do you tell him & why? Should your company issue bonds now?

An insurance company prefers to invest in high quality bonds with a long maturity date

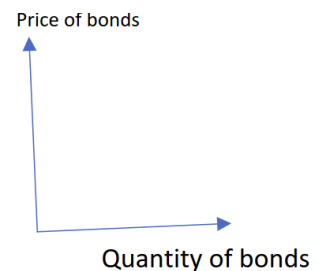
(0.50) Why may the annual return on this investment fluctuate a lot for the insurance company? Why are the company's investment (long term bonds) riskier compared to short term bonds

(0.5) How can the insurance company minimize the final capital loss on this investment? What should the firm do to reduce the risk on it's investments?

(1) What happened with the demand and supply of bonds in Japan some 20 years ago when interest rates of Japanese bonds turned negative? Please explain in words and by completing the graph

(0.5) Explain agency debt

(0.5) Give the full form of ADR



Assuming Joe Biden wins the election, will that make an investment in Municipal bonds more/less attractive from a tax point of view? Explain

What is the relationship between Covid 19, central banks, interest rates & quantitative easing?

What was the central bank's (FED, ECB) reaction to Covid 19 crisis? Give Advantages/Disadvantages?

"A financial institution is not involved in direct finance" True or false? Explain?

Explain the Fischer effect & complete the graph

Explain Reinvestment risk. How can you prevent reinvestment risk?

Why is yield to maturity the most accurate measure of interest rate?

Using Liquidity premium Theory, explain why the graph is called a nominal yield curve? Which maturity would you choose to issue bonds? Explain?

Suppose you are the CFO/CEO of a company, would it always be beneficial to this company to issue 2 year bonds instead of 10 year bonds? Why/not?

Explain Restrictive covenants?

What does IPO stand for? **Initial public offering**

What does CDO stand for? **Collateralized Debt Obligation**

(1) Japanese Low interest rates: Explain and Draw: Inflation decreases (-ve), demand increases, supply decreases, bond price increases, Interest Rates decrease (negatively relates)

(1) How does the **Government having Deficit** relate to the **supply & demand of Government bonds**? Increase in supply, increase/same demand as Government bonds are always a safe bet, default free. But people confidence in the government may go down, so decrease in demand

(0.5) "There is **NOT only 1 economy-wide interest rate**" Explain?

(0.5) "**Real Interest is accurate to the true cost of borrowing**" Explain? Yes, real interest rates are adjusted for inflation (it's taken into account)

(0.5) "**The world without banks is better than without**" Explain? Keeps money safe and flowing from borrowers to lenders, can make investments

(0.5) **CDS** abbreviation define and explain? **Credit Default Swap**

(1) Why do banks use "**Restrictive Covenants**" to lend money and why do they look at **Net worth**? They are a type of agreement in a contract or obligation that restricts the buyer from taking some action

(0.5) **Why should you invest in shares? Because 1 DOLLAR today is worth more than 1 DOLLAR next year so investing is worth the return**