

# Unit 03: Financial Theory, Risk, and Applications

Author: Tony Pizur

Professor @Regis University

Published 2014

# Create, Share, and Discover Online Quizzes.

QuizOver.com is an intuitive and powerful online quiz creator. [learn more](#)

Join QuizOver.com



## How to Analyze Stocks

By Yasser Ibrahim

1 month ago  
12 Responses

© iStock: Thomson Moter



## Pre Employment English

By Katharina Jennifer N

5 months ago  
19 Responses

© iStock: Albin



## Lean Startup Quiz

By Yasser Ibrahim

2 months ago  
16 Responses

© iStock: Gekwinih Chou

Powered by QuizOver.com

The Leading Online Quiz & Exam Creator

Create, Share and Discover Quizzes & Exams

<http://www.quizover.com>

## Disclaimer

All services and content of QuizOver.com are provided under QuizOver.com terms of use on an "as is" basis, without warranty of any kind, either expressed or implied, including, without limitation, warranties that the provided services and content are free of defects, merchantable, fit for a particular purpose or non-infringing.

The entire risk as to the quality and performance of the provided services and content is with you.

In no event shall QuizOver.com be liable for any damages whatsoever arising out of or in connection with the use or performance of the services.

Should any provided services and content prove defective in any respect, you (not the initial developer, author or any other contributor) assume the cost of any necessary servicing, repair or correction.

This disclaimer of warranty constitutes an essential part of these "terms of use".

No use of any services and content of QuizOver.com is authorized hereunder except under this disclaimer.

The detailed and up to date "terms of use" of QuizOver.com can be found under:

<http://www.QuizOver.com/public/termsOfUse.xhtml>

## eBook Content License

Tony Pizur. Math for Economists (The Saylor Foundation), <http://www.saylor.org/courses/econ200/>

### Creative Commons License

Attribution-NonCommercial-NoDerivs 3.0 Unported (CC BY-NC-ND 3.0)

<http://creativecommons.org/licenses/by-nc-nd/3.0/>

You are free to:

Share: copy and redistribute the material in any medium or format

The licensor cannot revoke these freedoms as long as you follow the license terms.

Under the following terms:

**Attribution:** You must give appropriate credit, provide a link to the license, and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use.

**NonCommercial:** You may not use the material for commercial purposes.

**NoDerivatives:** If you remix, transform, or build upon the material, you may not distribute the modified material.

**No additional restrictions:** You may not apply legal terms or technological measures that legally restrict others from doing anything the license permits.

# Table of Contents

Quiz Permalink: <http://www.quizover.com/question/unit-03-financial-theory-risk-and-applications-by-tony-regis-math>

Author Profile: <http://www.quizover.com/user/profile/tony.pizur>

## 1. Unit 03: Financial Theory, Risk, and Applications

## 4. Chapter: Unit 03: Financial Theory, Risk, and Applications

### 1. Unit 03: Financial Theory, Risk, and Applications Questions

#### 4.1.1. The compound rate of interest on a savings account is 3 percent. In...

Author: Tony Pizur

The compound rate of interest on a savings account is 3 percent. Inflation is 2 percent. You deposit \$111,111 and leave it in the account for five years. If the bank charges you a one-time \$45 fee to open the account, what will be the value in the account at the end of five years?

Please choose only one answer:

- \$128,808
- \$128,756
- \$128,763
- \$128,711

Check the answer of this question online at QuizOver.com:

Question: [The compound rate of interest on a savings Tony Pizur @Regis Math](#)

Flashcards:

<http://www.quizover.com/flashcards/the-compound-rate-of-interest-on-a-savings-tony-pizur-regis-math?pdf=3044>

Interactive Question:

<http://www.quizover.com/question/the-compound-rate-of-interest-on-a-savings-tony-pizur-regis-math?pdf=3044>

#### 4.1.2. In which situation is arbitrage most likely to occur?

Author: Tony Pizur

In which situation is arbitrage most likely to occur?

Please choose only one answer:

- Between countries with similar inflation rates and similar interest rates.
- Between countries with a trade imbalance and significant tariffs.
- Between countries with extensive capital controls.
- Between countries with free trade and differing prices on goods.

Check the answer of this question online at QuizOver.com:

Question: [In which situation is arbitrage most likely Tony Pizur @Regis Math](#)

Flashcards:

<http://www.quizover.com/flashcards/in-which-situation-is-arbitrage-most-likely-tony-pizur-regis-math?pdf=3044>

Interactive Question:

<http://www.quizover.com/question/in-which-situation-is-arbitrage-most-likely-tony-pizur-regis-math?pdf=3044>



#### 4.1.3. The compound rate of interest on a savings account is 3 percent. In...

Author: Tony Pizur

The compound rate of interest on a savings account is 3 percent. Inflation is -2 percent. You deposit \$111,111 and leave it in the account for five years. The bank charges you a one-time \$45 fee to open the account. How much more real purchasing power will the end balance have?

Please choose only one answer:

- \$28,320
- \$28,373
- \$28,737
- \$28,777

Check the answer of this question online at QuizOver.com:

Question: [The compound rate of interest on a savings Tony Pizur @Regis Math](#)

Flashcards:

<http://www.quizover.com/flashcards/the-compound-rate-of-interest-on-a-savings-tony-pizur-regis-ma-2627292?pdf=3044>

Interactive Question:

<http://www.quizover.com/question/the-compound-rate-of-interest-on-a-savings-tony-pizur-regis-ma-2627292?pdf=3044>

#### 4.1.4. Suppose you bid at a government auction where the bids are sealed i...

Author: Tony Pizur

Suppose you bid at a government auction where the bids are sealed in envelopes with only one chance to bid. The winning bid gets the job and all others receive nothing. You bid on a job at a price of \$1 million, and you know that your cost is \$800,000. If the probability that you'll win is 25 percent, what is the expected value?

Please choose only one answer:

- \$0
- \$50,000
- \$200,000
- 25%

Check the answer of this question online at QuizOver.com:

Question: [Suppose you bid at a government auction where Tony Pizur @Regis Math](#)

Flashcards:

<http://www.quizover.com/flashcards/suppose-you-bid-at-a-government-auction-where-tony-pizur-regis-math?pdf=3044>

Interactive Question:

<http://www.quizover.com/question/suppose-you-bid-at-a-government-auction-where-tony-pizur-regis-math?pdf=3044>

#### 4.1.5. Suppose you bid at a government auction where the bids are sealed i...

Author: Tony Pizur

Suppose you bid at a government auction where the bids are sealed in envelopes with only one chance to bid. The winning bid gets the job and all others receive nothing. All bidders must pay a \$50,000 bribe to participate. You bid on a job at a price of \$1 million, and you know that your cost to complete the job is \$800,000. If the probability that you'll win is 25 percent, what is the expected value?

Please choose only one answer:

- \$0
- \$37,500
- \$50,000
- 75%

Check the answer of this question online at QuizOver.com:

Question: [Suppose you bid at a government auction where Tony Pizur @Regis Math](#)

Flashcards:

<http://www.quizover.com/flashcards/suppose-you-bid-at-a-government-auction-where-tony-pizur-regis-2627565?pdf=3044>

Interactive Question:

<http://www.quizover.com/question/suppose-you-bid-at-a-government-auction-where-tony-pizur-regis-2627565?pdf=3044>

#### 4.1.6. Suppose you consider bidding at a government auction where the bids...

Author: Tony Pizur

Suppose you consider bidding at a government auction where the bids are sealed in envelopes with only one chance to bid. The winning bid gets the job and all others receive nothing. All bidders must pay a \$50,000 bribe to participate. You intend to bid on a job at a price of \$1 million, and you know that your cost to complete the job is \$900,000. If the probability that you'll win is 25 percent, what is the rational course of action?

Please choose only one answer:

- Raise your bid to \$1,050,000.
- Raise your bid between \$1,000,000 and \$1,050,000.
- Raise your bid above \$1,050,000.
- Lower your bid to \$950,000.

Check the answer of this question online at QuizOver.com:

Question: [Suppose you consider bidding at a government Tony Pizur @Regis Math](#)

Flashcards:

<http://www.quizover.com/flashcards/suppose-you-consider-bidding-at-a-government-tony-pizur-regis-math?pdf=3044>

Interactive Question:

<http://www.quizover.com/question/suppose-you-consider-bidding-at-a-government-tony-pizur-regis-math?pdf=3044>

#### 4.1.7. Suppose you buy a one-year debenture priced at \$1,000 yielding 10 p...

Author: Tony Pizur

Suppose you buy a one-year debenture priced at \$1,000 yielding 10 percent a year. There is a 5 percent chance the issuer will default on the payments and principal. What is your expected return?

Please choose only one answer:

- \$1,000
- \$1,045
- \$1,050
- \$1,100

Check the answer of this question online at QuizOver.com:

Question: [Suppose you buy a one-year debenture priced Tony Pizur @Regis Math](#)

Flashcards:

<http://www.quizover.com/flashcards/suppose-you-buy-a-one-year-debenture-priced-tony-pizur-regis-math?pdf=3044>

Interactive Question:

<http://www.quizover.com/question/suppose-you-buy-a-one-year-debenture-priced-tony-pizur-regis-math?pdf=3044>

#### 4.1.8. Suppose you buy a one-year insured debenture priced at \$1,000 yield...

Author: Tony Pizur

Suppose you buy a one-year insured debenture priced at \$1,000 yielding 10 percent a year. There is a 5 percent chance the issuer will default on the payments only and return your principal. What is your expected return?

Please choose only one answer:

- \$1,000
- \$1,095
- \$1,098
- \$1,100

Check the answer of this question online at [QuizOver.com](http://www.quizover.com):

Question: [Suppose you buy a one-year insured debenture Tony Pizur @Regis Math](#)

Flashcards:

<http://www.quizover.com/flashcards/suppose-you-buy-a-one-year-insured-debenture-tony-pizur-regis-math?pdf=3044>

Interactive Question:

<http://www.quizover.com/question/suppose-you-buy-a-one-year-insured-debenture-tony-pizur-regis-math?pdf=3044>

#### 4.1.9. On January 5, you buy a 10-year corporate bond yielding 3.5 percent...

Author: Tony Pizur

On January 5, you buy a 10-year corporate bond yielding 3.5 percent. On January 6, the Central Bank of the United States uses monetary policy to lower the rate on benchmark 10-year Treasuries from 1.5 percent to 1.0 percent. What is the new risk premium?

Please choose only one answer:

- 33%, or  $(1.5\% - 1.0\%) / 1.5\%$
- 50%, or  $(1.5\% - 1.0\%) / 1.0\%$
- 2.0%, or  $3.5\% - 1.5\%$
- 2.5%, or  $3.5\% - 1.0\%$

Check the answer of this question online at QuizOver.com:

Question: [On January 5 you buy a 10-year corporate bond Tony Pizur @Regis Math](#)

Flashcards:

<http://www.quizover.com/flashcards/on-january-5-you-buy-a-10-year-corporate-bond-tony-pizur-regis-math?pdf=3044>

Interactive Question:

<http://www.quizover.com/question/on-january-5-you-buy-a-10-year-corporate-bond-tony-pizur-regis-math?pdf=3044>

#### 4.1.10. A Russian bank pays 15 percent interest on a one-year CD. A one-yea...

Author: Tony Pizur

A Russian bank pays 15 percent interest on a one-year CD. A one-year CD pays only 0.5 percent in Switzerland. What can we say about the relative inflation rates?

Please choose only one answer:

- The rate in Russia must be 14.5 percent higher than in Switzerland.
- The rate in Russia must be 30 times higher than in Switzerland.
- The rate in Russia must be higher but we cannot say by how much.
- There is insufficient information to draw a conclusion because we don't know the default risk.

Check the answer of this question online at QuizOver.com:

Question: [A Russian bank pays 15 percent interest on a Tony Pizur @Regis Math](#)

Flashcards:

<http://www.quizover.com/flashcards/a-russian-bank-pays-15-percent-interest-on-a-tony-pizur-regis-math?pdf=3044>

Interactive Question:

<http://www.quizover.com/question/a-russian-bank-pays-15-percent-interest-on-a-tony-pizur-regis-math?pdf=3044>