UNIVERSITY OF RICHMOND

FIN 366: INVESTMENTS
CRITICAL THINKING & CONCEPTUAL QUESTIONS

Chapter 2:

1. Why do we refer to the return of T-bills as “risk free”?
2. What does “issued at a discount” mean with regard to T-bills?
3. What are the two components of liquidity?
4. Identify the type of money market instrument/rate/transaction for each of the examples below.
    a. A security dealer acquires additional T-bonds for their inventory by paying $1.0 million to another party, agreeing to sell back the bonds to the same party for $1.01 million.
    b. You open an interest-bearing account at Iberia Bank, but the money cannot be withdrawn from your account until the end of the year.
    c. To borrow cash, you sell some of your T-bonds to another party, agreeing to buy them back at a higher price in the near future.
    d. You trade a security from a bank payable in 6 months, but trade it with another party for 98% of its value today.
    e. FLFB Corp., a large chemical company, issues a promissory note to borrow $296,000 for an upcoming expense. They will pay back the holder $300,000 in 250 days.
5. Why would individuals be willing to lock their money up in a CD?
6. How do dealers of government securities profit when trading from their inventory?
7. What does it mean if we see a T-Bond has an *Asked Yield* of 1.321?
8. Why would anyone be willing to pay $1,058 for a T-Bond with a par value of $1,000? Doesn’t that mean they are overpaying by $58?
9. Why might an investor in a higher marginal tax bracket be attracted to municipal bonds?
10. What is a *residual claim*, and which asset class represents a *residual claim* on a firm?

11. You see that a stock has a **%Change** of 51.08% and **Change** of +21.98. What must the current stock price be? (*Hint*: the answer is the same as GME's price listed on the 20th slide of the Chapter 2 PowerPoint. Attempt to calculate this first before looking up the answer.)
12. Why must we rebalance equally-weighted indexes?
13. Why don't value-weighted indexes require rebalancing?
14. What is the S&P 500? What does it track? How is it weighted?
15. What is a stock split? What is a reverse stock split? Why would firms do this?
16. Is a company with a share price of $80 better than a company with a share price of $40? Is it more valuable?
17. Would you be impressed if a small company had a share price higher than a larger company?
18. You purchase a security for $10 that gives you the right to purchase a stock for $340 on December 31st. On December 31st, the shares are trading at $351. What type of security is this? Would you exercise? What if the shares were trading at $328 on December 31st?
19. You purchase a security for $8 that gives you the right to sell a stock for $286 on December 31st. On December 31st, the shares are trading at $321. What type of security is this? Would you exercise? What if the shares were trading at $225 on December 31st?
20. What is the primary difference between calls/puts and forwards/futures?