

FIN 366: Investments

Exam 1 (Sample Only)

Name (print): _____

Honor Pledge: I pledge on my honor that I have neither given nor received unauthorized assistance on this graded exercise.

Signature: _____

- Please read all directions carefully! **Nothing** is designed to trick you. **Everything** is designed to challenge you.
- Complete within 1 hour and 15 minutes.
- The instructor **cannot** answer any questions during the exam.
- If you leave the room, you must submit your exam to be graded *as is*.
- No outside materials are permitted other than a calculator and pencils.
- You may write, annotate, and do scratchwork on the exam as necessary, just be sure your answers are clearly marked.

This gives you a sample of the different types of problems you may see on the actual exam. The actual exam may have additional sections (for example, analyzing a graph or diagram) and will have several more questions. The questions on the exam will be more challenging.

Section 1: Single Answer Multiple Choice. Circle the one best answer.

- 1.) The CEO of Wild West Manufacturing Co., unexpectedly announces today that the firm will likely declare bankruptcy in 5 days. Which of the following would most likely define how the share price of Wild West would respond to the news?
- A. The stock price would drop significantly on day 5
 - B. The stock price would drop significantly today
 - C. The stock price would gradually drop each day between today and day 5, bottoming out on day 5
 - D. Stock prices won't move on bankruptcy news because bankruptcy involves debt, not equity
 - E. The stock price won't move because bankruptcy doesn't always mean the firm goes out of business

Section 2: Fill in the blank. Write your answer in the space to the left of the question.

- 2.) _____ A publicly traded "blank check" company that takes private firms public through a reverse merger.

Section 3: Select All That Apply. Choose all the correct answers for each question by putting a checkmark ✓ in the box next to the true statements. Leave the box blank if it is incorrect. You must select *all* correct answers to get credit for the problem. No partial credit is awarded on these problems if you select some but not all of the correct answers.

3.) Select all of the following that are true regarding buying on margin.

- the initial margin as established by Regulation T of the FED must be 25%
- the margin in the account is the portion contributed by the investor
- the maintenance margin is the level below which a margin call will be issued
- buying on margin can amplify gains relative to not using margin
- buying on margin can amplify losses relative to not using margin

Section 4: Short Answer. Answer these questions in up to 5 complete, concise, and coherent sentences.

4.) Name the two types of muni bonds we discussed in class and describe the differences between them.

Section 5: True/False. Indicate whether each statement is True or False by circling TRUE or FALSE in the space next to each.

- 5.) TRUE FALSE The price you pay a dealer for a security is the dealer's ASK price.

Section 6: Problem Solving. Solve the problems in the space below. Place your answer and only your answer in the box provided. Show your work.

- 6.) You've borrowed \$20,000 on margin to buy 1,000 shares in Ursuline Corp, which is trading at \$40 per share. The maintenance margin is 35%. To what price can the stock fall before you receive a margin call?

Answers:

1.) B

2.) SPAC or Special Purpose Acquisition Company

3.) The 2nd, 3rd, 4th, and 5th options are all correct and must be selected to get credit.

4.) A "full credit" answer would be: *"General Obligation bonds are municipal bonds that pay their debt obligation through the tax revenue of the issuing municipality. Revenue bonds pay their debt obligations by using revenue from the specific projects they finance (such as tolls from a bridge)."*

5.) TRUE

6.) \$30.77