

*Test Bank for Fundamentals of
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Answers are located at the end of each chapter.

- 1) Which one of the following had the greatest volatility of returns for the period 1926 to 2024?
 - A) large-company stocks
 - B) U.S. Treasury bills
 - C) long-term government bonds
 - D) small-company stocks
 - E) long-term corporate bonds

- 2) A stock has an average historical return of 10.7 percent and a standard deviation of 19.3 percent. Which range of returns would you expect to see approximately two-thirds of the time?
 - A) 8.6% to + 30.0%
 - B) +4.6% to + 33.8%
 - C) -8.6% to + 30.0%
 - D) -3.9% to + 32.5%
 - E) -8.9% to + 31.5%

- 3) The total dollar return on a share of stock is defined as the:
 - A) change in the price of the stock over a period.
 - B) dividend income divided by the beginning price per share.
 - C) capital gain or loss plus any dividend income.
 - D) change in the stock price divided by the original stock price.
 - E) annual dividend income received.

- 4) One year ago, you purchased 400 shares of Southern Cotton at \$36.20 a share. During the past year, you received a total of \$250 in dividends. Today, you sold your shares for \$38.50 a share. What is your total return on this investment?
 - A) 7.60%
 - B) 8.08%
 - C) 9.69%
 - D) 11.64%
 - E) 12.68%

- 5) The additional return earned for accepting risk is called the:
- A) inflated return.
 - B) capital gains yield.
 - C) real return.
 - D) riskless rate.
 - E) risk premium.
- 6) The geometric return on an investment is approximately equal to the arithmetic return:
- A) plus half the standard deviation.
 - B) plus half the variance.
 - C) minus half the standard deviation.
 - D) minus half the variance.
 - E) divided by two.
- 7) Trevon just sold a stock and realized a 6.5 percent return for a 5-month holding period. What was his annualized rate of return?
- A) 12.66%
 - B) 13.20%
 - C) 15.78%
 - D) 16.32%
 - E) 27.24%
- 8) Hussein purchased a stock for \$33.33 a share, received a dividend of \$.1.85 a share, and sold the stock after one year for \$38.29 a share. What was his dividend yield on this investment?
- A) 5.35%
 - B) 5.45%
 - C) 5.55%
 - D) 5.65%
 - E) 5.75%

- 9) You purchased a stock eight months ago for \$55 a share. Today, you sold that stock for \$64.50 a share. The stock pays no dividends. What was your annualized rate of return?
- A) 17.27%
 - B) 18.15%
 - C) 18.35%
 - D) 19.34%
 - E) 27.00%
- 10) Ciara has been adding funds to his investment account each year for the past 3 years. She started with an initial investment of \$1,000. After earning a 10 percent return the first year, she added \$3,000 to his portfolio, but her investments lost 5 percent. Undeterred, Ciara added \$2,000 the next year and earned a 2 percent return. Last year, discouraged by the recent results, she only added \$500 to her portfolio, but in this final year her investments earned 8 percent. What was Ciara's dollar-weighted average return for her investments?
- A) 1.5%
 - B) 2.0%
 - C) 2.5%
 - D) 3.0%
 - E) 3.5%
- 11) Over the past five years, an investment produced annual returns of 16.5, 21, -18, 4, and 17 percent, respectively. What is the geometric average return?
- A) 6.42%
 - B) 7.06%
 - C) 8.00%
 - D) 15.60%
 - E) 16.00%
- 12) Shane purchased a stock this morning at a cost of \$13 a share. He expects to receive an annual dividend of \$0.27 a share next year. What will the price of the stock have to be one year from today if Shane is to earn an 8 percent rate of return on this investment?
- A) \$12.38
 - B) \$12.60
 - C) \$12.88
 - D) \$13.77
 - E) \$14.28

13) The capital gains yield is equal to:

- A) $\frac{(P_t - P_{t+1} + D_t + 1)}{P_t + 1}$,
- B) $\frac{(P_t + 1 - P_t + D_t)}{P_t}$,
- C) $\frac{D_t + 1}{P_t}$,
- D) $\frac{(P_t + 1 - P_t)}{P_t}$,
- E) $\frac{(P_t + 1 - P_t)}{P_t + 1}$,

14) A stock produced annual returns of 8.3, -21, 12, 42, and 9 percent over the past five years, respectively. What is the geometric average return?

- A) 5.78%
- B) 6.03%
- C) 6.34%
- D) 7.21%
- E) 8.20%

15) You purchased a stock for \$23.93 a share, received a dividend of \$0.51 per share, and sold the stock after one year for \$23.99 a share. What was your dividend yield on this investment?

- A) 2.01%
- B) 2.13%
- C) 2.45%
- D) 2.67%
- E) 2.75%

16) The geometric return on an asset over the past 12 years has been 14.50 percent. The arithmetic return over the same period was 14.96 percent. What is the best estimate of the average return on this asset over the next 5 years?

- A) 14.47%
- B) 14.67%
- C) 14.79%
- D) 14.88%
- E) 14.86%

17) A portfolio had an original value of \$7,400 seven years ago. The current value of the portfolio is \$11,898. What is the average geometric return on this portfolio?

- A) 7.02%
- B) 7.47%
- C) 7.59%
- D) 7.67%
- E) 7.88%

18) John began his investing program with a \$5,500 initial investment. The table below recaps his returns each year as well as the amounts he added to his investment account. What is his dollar-weighted average return?

Time	Investment	Return
0	\$ 5,500	8.5%
1	\$ 2,000	-5.0%
2	\$ 2,600	4.5%
3	\$ 3,000	9.0%
4	\$ 900	-2.5%

- A) 1.5%
- B) 1.8%
- C) 2.0%
- D) 2.2%
- E) 2.6%

19) The wider the distribution of an investment's returns over time, the _____ the expected average rate of return and the _____ the expected volatility of those returns.

- A) higher; higher
- B) higher; lower
- C) lower; higher
- D) lower; lower
- E) The distribution of returns does not affect the expected average rate of return.

- 20) Which statement is most accurate regarding risky investments?
- A) They always pay more than risk-free investments.
 - B) Risky investments sometimes pay more than risk-free investments.
 - C) All risks are easily avoidable.
 - D) All risks are cheaply avoidable.
 - E) Only those risks that are easily avoided are compensated.
- 21) Blume's formula is used to:
- A) predict future rates of return.
 - B) convert an arithmetic average return into a geometric average return.
 - C) convert a geometric average return into an arithmetic average return.
 - D) measure past performance in a consistent manner.
 - E) compute the historical mean return over a multiyear period.
- 22) Based on the period 1926 to 2024, the risk premium for U.S. Treasury bills was:
- A) 2.7%.
 - B) 0%.
 - C) 1.2%.
 - D) 2.0%.
 - E) 2.4%.
- 23) Downtown Industries' common stock had returns of 5.2, 10.3, 9.3, and 9.5 percent, respectively, over the past four years. What is the standard deviation of these returns?
- A) 2.29%
 - B) 2.38%
 - C) 2.41%
 - D) 2.59%
 - E) 2.82%

- 24) Over the past five years, Breeze Airways stock had annual returns of 15, 9, -12, 10, and 6 percent, respectively. What is the variance of these returns?
- A) 0.00560
 - B) 0.00750
 - C) 0.01038
 - D) 0.01073
 - E) 0.05600
- 25) The risk premium is defined as the rate of return on:
- A) a risky asset minus the risk-free rate.
 - B) the overall market.
 - C) a U.S. Treasury bill.
 - D) a risky asset minus the inflation rate.
 - E) a riskless investment.
- 26) Brandy owns a stock that has historically returned 11.5 percent annually with a standard deviation of 8.3 percent. There is only a 0.5 percent chance that the stock will produce a return greater than _____ percent in any one year.
- A) 24.9
 - B) 29.2
 - C) 32.3
 - D) 36.4
 - E) 48.5
- 27) An asset had annual returns of 7, 15, -10, 8, and 14 percent, respectively, for the last five years. What is the variance of these returns?
- A) 0.00939
 - B) 0.01007
 - C) 0.01065
 - D) 0.02308
 - E) 0.06800

- 28) Capital gains are included in the return on an investment:
- A) when either the investment is sold or the investment has been owned for at least one year.
 - B) only if the investment is sold and the capital gain is realized.
 - C) whenever dividends are paid.
 - D) whether the investment is sold or not.
 - E) only if the investment incurs a loss in value or is sold.
- 29) Which one of the following statements is correct concerning the dividend yield and the total return?
- A) The dividend yield can be zero while the total return must be a positive value.
 - B) The total return can be negative but the dividend yield cannot be negative.
 - C) The total return must be greater than the dividend yield.
 - D) The total return plus the capital gains yield is equal to the dividend yield.
 - E) The dividend yield exceeds the total return when a stock increases in value.
- 30) Downtown Industries common stock had returns of 7.2, 11.5, 10.5, and 7.5 percent, respectively, over the past four years. What is the standard deviation of these returns?
- A) 2.15%
 - B) 2.38%
 - C) 2.41%
 - D) 2.59%
 - E) 2.82%
- 31) Based on the period of 1926 to 2024, the risk premium for small-company stocks averaged:
- A) 11.3%.
 - B) 12.7%.
 - C) 13.0%.
 - D) 16.0%.
 - E) 17.4%.

- 32) Eight months ago, you purchased 300 shares of a non-dividend paying stock for \$27 a share. Today, you sold those shares for \$31.59 a share. What was your annualized rate of return on this investment?
- A) 17.00%
 - B) 21.45%
 - C) 25.50%
 - D) 26.55%
 - E) 28.00%
- 33) Tessa invested \$10,000 eight years ago. Her arithmetic average return on this investment is 7.82 percent, and her geometric average return is 7.54 percent. What is Tessa's portfolio worth today?
- A) \$16,789
 - B) \$17,293
 - C) \$17,529
 - D) \$17,888
 - E) \$18,263
- 34) You purchased a stock for \$50.00 a share and resold it one year later. Your total return for the year was 11.5 percent and the dividend yield was 2.8 percent. At what price did you resell the stock?
- A) \$42.78
 - B) \$50.62
 - C) \$51.93
 - D) \$52.08
 - E) \$54.35
- 35) You own a stock that has produced an arithmetic average return of 8.6 percent over the past five years. The annual returns for the first four years were 16, 11, -19, and 3 percent, respectively. What was the rate of return on the stock in year five?
- A) -5.00%
 - B) 2.75%
 - C) 6.25%
 - D) 28.00%
 - E) 32.00%

- 36) Jack owned a stock for five months and earned an annualized rate of return of 6 percent. What was the holding period return?
- A) 2.37%
 - B) 2.42%
 - C) 2.46%
 - D) 2.64%
 - E) 2.72%
- 37) Sheila purchased 1,000 shares of common stock at \$10.30 per share last year. During the past year, she received dividends of \$0.55 per share. Today, Sheila sold her shares for \$16.11 per share. What is Sheila's total return on this investment?
- A) -56.41%
 - B) -61.75%
 - C) 5.5%
 - D) 61.75%
 - E) 56.41%
- 38) Which one of the following is considered the best method of comparing the returns on various-sized investments?
- A) total dollar return
 - B) real dollar return
 - C) absolute dollar return
 - D) percentage return
 - E) variance return
- 39) Blackstone Mines stock returned 10.5, 17.2, -9.0, and 14.5 percent over the past four years, respectively. What is the geometric average return?
- A) 5.84%
 - B) 6.36%
 - C) 7.78%
 - D) 9.94%
 - E) 10.33%

- 40) The bell curve is another name for the:
- A) risk premium.
 - B) average return.
 - C) standard deviation.
 - D) effective annual return.
 - E) normal distribution.
- 41) The geometric return on a stock over the past 10 years was 7.9 percent. The arithmetic return over the same period was 8.8 percent. What is the best estimate of the average return on this stock over the next 5 years?
- A) 8.40%
 - B) 9.05%
 - C) 9.08%
 - D) 9.13%
 - E) 9.47%
- 42) When the total return on an investment is expressed on a per-year basis it is called the:
- A) capital gains yield.
 - B) dividend yield.
 - C) holding period return.
 - D) effective annual return.
 - E) initial return.
- 43) An annualized return:
- A) is less than a holding period return when the holding period is less than one year.
 - B) is expressed as the summation of the capital gains yield and the dividend yield on an investment.
 - C) is expressed as the capital gains yield that would have been realized if an investment had been held for a twelve-month period.
 - D) is computed as $(1 + \text{holding period percentage return})^m$, where “m” is the number of holding periods in a year.
 - E) is computed as $(1 + \text{holding period percentage return})^m$, where “m” is the number of months in the holding period.

- 44) If you multiply the number of shares outstanding for a stock by the price per share, you are computing the firm's:
- A) equity ratio.
 - B) total book value.
 - C) market share.
 - D) market capitalization.
 - E) time value.
- 45) Cody purchased 500 shares of Frozen Foods stock for \$72 a share. Seven months later, he received a dividend of \$.35 a share and also sold the shares for \$65 each. What was his annualized rate of return on this investment?
- A) -26.23%
 - B) -16.35%
 - C) -15.31%
 - D) -12.32%
 - E) -9.24%
- 46) You purchased a stock five months ago for \$54.00 a share. Today, you sold that stock for \$58.32 a share. The stock pays no dividends. What was your annualized rate of return?
- A) 3.26%
 - B) 8.00%
 - C) 15.70%
 - D) 20.29%
 - E) 22.39%
- 47) Over the past four years, Lo-Ball Trucking stock returned 32.5, 34.2, 14.8, and -23.3 percent annually. What is the arithmetic average return?
- A) 14.55%
 - B) 15.05%
 - C) 18.23%
 - D) 19.85%
 - E) 25.32%

- 48) The average risk premium on long-term corporate bonds for the period 1926 to 2024 was:
- A) 2.4%.
 - B) 3.4%.
 - C) 3.9%.
 - D) 4.2%.
 - E) 4.6%.
- 49) The arithmetic average return is the:
- A) summation of the returns for a number of years, t , divided by $(t - 1)$.
 - B) compound total return for a period of years, t , divided by t .
 - C) average compound return earned per year over a multiyear period.
 - D) average squared return earned in a single year.
 - E) return earned in an average year over a multiyear period.
- 50) Over the past five years, CrossTrak stock produced returns of 25.4, 8.5, 9.7, 8.1, and 6.1 percent, respectively. For the same five years, the risk-free rate was 2.5, 4.3, 8.2, 4.3, and 3.4 percent, respectively. What is the arithmetic average risk premium on Teen Clothing stock for this period?
- A) 6.88%
 - B) 7.02%
 - C) 7.22%
 - D) 7.33%
 - E) 7.56%
- 51) The rate of return earned on a U.S. Treasury bill is frequently used as a proxy for the:
- A) risk premium.
 - B) deflated rate of return.
 - C) risk-free rate.
 - D) expected rate of return.
 - E) market rate of return.

- 52) Xu wants to create a visual display of a portfolio over time, so he is counting the number of times that an annual return on a stock portfolio falls within ranges of 5 percent. Xu is most likely
- A) preparing a frequency distribution.
 - B) calculating the risk premium.
 - C) comparing the arithmetic and geometric averages.
 - D) distributing dividends.
 - E) calculating the standard deviation.
- 53) You purchased a stock for \$35.00 a share and resold it one year later. Your total return for the year was 7.5 percent and the dividend yield was 1.4 percent. At what price did you resell the stock?
- A) \$35.75
 - B) \$36.05
 - C) \$36.15
 - D) \$37.14
 - E) \$38.24
- 54) One year ago, you purchased 500 shares of stock at a cost of \$10,500. The stock paid an annual dividend of \$1.10 per share. Today, you sold those shares for \$23.90 each. What is the capital gains yield on this investment?
- A) 9.96%
 - B) 10.52%
 - C) 12.49%
 - D) 13.81%
 - E) 14.75%
- 55) An asset had annual returns of 12, 18, 6, -9, and 5 percent, respectively, for the last five years. What is the variance of these returns?
- A) 0.00810
 - B) 0.01013
 - C) 0.01065
 - D) 0.02038
 - E) 0.04052

- 56) Christine owns a stock that dropped in price from \$43.57 per share to \$39.49 per share over the past year. The dividend yield on that stock is 1.6 percent. What is her total return on this investment for the year?
- A) -11.31%
 - B) -10.49%
 - C) -9.11%
 - D) -7.76%
 - E) -8.04%
- 57) Big Town Markets common stock returned 14.3, 12.5, 9.9, 6.5, and 11.1 percent, respectively, over the past five years. What is the arithmetic average return?
- A) 10.86%
 - B) 11.04%
 - C) 11.66%
 - D) 12.20%
 - E) 13.80%
- 58) Assume you own a portfolio that is invested 50 percent in large-company stocks and 50 percent in corporate bonds. If you want to increase the potential annual return on this portfolio, you could:
- A) decrease the investment in stocks and increase the investment in bonds.
 - B) replace the corporate bonds with intermediate-term government bonds.
 - C) replace the corporate bonds with Treasury bills.
 - D) increase the standard deviation of the portfolio.
 - E) reduce the expected volatility of the portfolio.
- 59) Which one of the following had the highest average return for the period 1926 to 2024?
- A) large-company stocks
 - B) U.S. Treasury bills
 - C) long-term government bonds
 - D) small-company stocks
 - E) long-term corporate bonds

- 60) The dividend yield is defined as the annual dividend expressed as a percentage of the:
- A) average stock price.
 - B) initial stock price.
 - C) ending stock price.
 - D) total annual return.
 - E) capital gain.
- 61) Over the past four years, the common stock of Jess Electronics Company produced annual returns of 7.2, 5.8, 11.2, and 13.6 percent, respectively. Treasury bills produced returns of 3.4, 3.3, 4.1, and 4.0 percent, respectively over the same period. What is the standard deviation of the risk premium on Jess Electronics Company stock for this time period?
- A) 2.23%
 - B) 2.86%
 - C) 3.22%
 - D) 4.46%
 - E) 4.61%
- 62) You have been researching a company and have estimated that the firm's stock will sell for \$44 a share one year from now. You also estimate the stock will have a dividend yield of 2.18 percent. How much are you willing to pay per share today to purchase this stock if you desire a total return of 15 percent on your investment?
- A) \$37.55
 - B) \$38.00
 - C) \$38.24
 - D) \$39.00
 - E) \$40.20
- 63) Celsius stock had year-end prices of \$42, \$37, \$44, and \$46 over the past four years, respectively. What is the arithmetic average rate of return?
- A) 3.17%
 - B) 3.85%
 - C) 4.28%
 - D) 10.63%
 - E) 11.79%

- 64) Which one of the following should be used to compare the overall performance of three different investments?
- A) holding period dollar return
 - B) capital gains yield
 - C) dividend yield
 - D) holding period percentage return
 - E) effective annual return
- 65) Over the past four years, a stock produced returns of 13, 6, -5, and 18 percent, respectively. What is the standard deviation of these returns?
- A) 8.63%
 - B) 9.93%
 - C) 9.97%
 - D) 10.11%
 - E) 10.15%
- 66) The standard deviation is a measure of:
- A) volatility.
 - B) total return.
 - C) capital gains.
 - D) changes in dividend yields.
 - E) changes in the capital gains rate.
- 67) Harlen purchased 555 shares of common stock at \$100.05 per share last year. During the past year, he received dividends of \$1.22 per share. Today, Harlen sold his shares for \$88.21 per share. What is Harlen's total return on this investment?
- A) -10.61%
 - B) -11.83%
 - C) 1.22%
 - D) 10.61%
 - E) 11.83%

- 68) You own a stock that has produced an arithmetic average return of 5.6 percent over the past five years. The annual returns for the first four years were 15, 10, -18, and 8 percent, respectively. What was the rate of return on the stock in year five?
- A) -5.00%
 - B) 2.75%
 - C) 6.25%
 - D) 13.00%
 - E) 32.00%
- 69) Last year, ABC stock returned 12.6 percent, the risk-free rate was 4.0 percent, and the inflation rate was 2.5 percent. What was the risk premium on ABC stock?
- A) 8.20%
 - B) 8.43%
 - C) 8.60%
 - D) 8.88%
 - E) 8.97%
- 70) A stock sold for \$25 at the beginning of the year. The end of year stock price was \$25.50. What is the amount of the annual dividend if the total return for the year was 8.5 percent?
- A) \$1.23
 - B) \$1.50
 - C) \$1.63
 - D) \$1.81
 - E) \$2.12
- 71) You have owned a stock for seven years. The geometric average return on this investment for those seven years is positive even though the annual rates of return have varied significantly. Given this, you know the arithmetic average return for the period is:
- A) positive but less than the geometric average return.
 - B) less than the geometric return and could be negative, zero, or positive.
 - C) equal to the geometric average return.
 - D) either equal to or greater than the geometric average return.
 - E) greater than the geometric average return.

- 72) Which one of the following statements is correct?
- A) The standard deviation of the returns on Treasury bills is zero.
 - B) Large-company stocks are historically riskier than small-company stocks.
 - C) The standard deviation is a means of measuring the volatility of returns on an investment.
 - D) A risky asset will always have a higher annual rate of return than a riskless asset.
 - E) There is an indirect relationship between risk and return.
- 73) When we refer to the rate of return on an investment, we are generally referring to the:
- A) capital gains yield.
 - B) effective annual rate of return.
 - C) total percentage return.
 - D) dividend yield.
 - E) annualized dividend yield.
- 74) Over the past ten years, large-company stocks have returned an average of 8.7 percent annually, long-term corporate bonds have earned 4.1 percent annually, and U.S. Treasury bills have returned 2.5 percent annually. How much additional risk premium would you have earned if you had invested in large-company stocks rather than long-term corporate bonds over those ten years?
- A) 1.7%
 - B) 3.7%
 - C) 4.2%
 - D) 4.6%
 - E) 6.4%
- 75) Today, you sold 500 shares of Solo Corporation, for \$27.50 a share. You bought the shares one year ago at a price of \$34.23 a share. Over the year, you received a total of \$300 in dividends. What is your capital gains yield on this investment?
- A) -24.47%
 - B) -19.66%
 - C) -17.91%
 - D) 19.66%
 - E) 24.47%

- 76) An initial investment of \$60,000 forty years ago is worth \$1,222,293 today. What is the geometric average return on this investment?
- A) 7.83%
 - B) 7.94%
 - C) 8.52%
 - D) 9.50%
 - E) 11.08%
- 77) A stock produced annual returns of 8.5, -18, 15, 17, and 12 percent over the past five years, respectively. What is the geometric average return?
- A) 5.78%
 - B) 6.04%
 - C) 6.34%
 - D) 7.21%
 - E) 8.20%
- 78) You purchased a stock eight months ago for \$36 a share. Today, you sold that stock for \$41.50 a share. The stock pays no dividends. What was your annualized rate of return?
- A) 23.32%
 - B) 23.77%
 - C) 25.70%
 - D) 26.03%
 - E) 27.67%
- 79) One year ago, you purchased 500 shares of stock at a cost of \$6,000. The stock paid an annual dividend of \$1.31 per share. Today, you sold those shares for \$15.00 each. What is the capital gains yield on this investment?
- A) 8.80%
 - B) 20.00%
 - C) 21.50%
 - D) 25.00%
 - E) 30.75%

80) John began his investing program with a \$6,500 initial investment. The table below recaps his returns each year as well as the amounts he added to his investment account. What is his dollar-weighted average return?

Time	Investment	Return
0	\$ 6,500	7.5%
1	\$ 2,500	-4.0%
2	\$ 3,100	5.0%
3	\$ 3,000	8.0%
4	\$ 800	-1.5%

- A) 1.5%
- B) 1.8%
- C) 2.0%
- D) 2.2%
- E) 2.8%

81) The risk-free rate is:

- A) another term for the dividend yield.
- B) defined as the increase in the value of a share of stock over time.
- C) the rate of return earned on an investment in a firm that you personally own.
- D) defined as the total of the capital gains yield plus the dividend yield.
- E) the rate of return on a riskless investment.

82) One year ago, you purchased 1,000 shares of common stock at \$52.00 per share. During the past year, you received dividends of \$1.52 per share. Today, you sold your shares for \$57.00 per share. What is your total return on this investment?

- A) -14.32%
- B) -12.54%
- C) -1.00%
- D) 12.54%
- E) 14.32%

- 83) An asset had returns of 7.7, 5.4, 3.6, -4.2, and -1.3 percent, respectively, over the past five years. What is the variance of these returns?
- A) 0.00173
 - B) 0.00184
 - C) 0.00216
 - D) 0.00239
 - E) 0.00259
- 84) Over the past four years, Jellystone Quarry stock produced returns of 12.5, 15.1, 8.7, and 2.6 percent, respectively. For the same period, the risk-free rate was 4.7, 5.3, 3.9, and 3.4 percent each year, respectively. What is the arithmetic average risk premium on this stock during these four years?
- A) 5.13%
 - B) 5.25%
 - C) 5.40%
 - D) 5.83%
 - E) 5.97%
- 85) A frequency distribution, which is completely defined by its average (mean) and variance or standard deviation, is referred to as a(n):
- A) normal distribution.
 - B) variance distribution.
 - C) expected rate of return.
 - D) average geometric return.
 - E) average arithmetic return.
- 86) For the period 1926 to 2024, the annual return on large-company stocks:
- A) was negative following every three-year period of positive returns.
 - B) was only negative for two or more consecutive years during the Great Depression.
 - C) remained negative for at least two consecutive years anytime that it was negative.
 - D) never exceeded a positive 30 percent nor lost more than 20 percent.
 - E) was unpredictable based on the prior year's performance.

- 87) Which one of the following statements is correct based on the historical returns for the period 1926 to 2024?
- A) Treasury bills yielded a higher rate of return than long-term government bonds.
 - B) The inflation rate exceeded the rate of return on Treasury bills during some years.
 - C) Small-company stocks outperformed large-company stocks every year during the period.
 - D) Bond prices, in general, were more volatile than stock prices.
 - E) Large-company stocks outperformed small-company stocks.
- 88) Because the risk-free rate represents compensation for waiting, it is often called the
- A) effective annual return.
 - B) normal distribution.
 - C) risk premium.
 - D) internal rate of return.
 - E) time value of money.
- 89) You purchased 200 shares of WV Peanut stock at \$45.29 a share. During the year, you received a total of \$375 in dividends. Today, you sold your shares for \$50.22 a share. What is your total return on this investment?
- A) 4.14%
 - B) 10.08%
 - C) 13.55%
 - D) 15.03%
 - E) 16.68%
- 90) Jefferson Mills stock produced returns of 14.8, 22.6, 5.9, and 9.7 percent, respectively, over the past four years. During those same years, U.S. Treasury bills returned 3.8, 4.6, 4.8, and 4.0 percent, respectively. What is the variance of the risk premiums on Jefferson Mills stock for these four years?
- A) 0.00298
 - B) 0.00196
 - C) 0.00396
 - D) 0.00478
 - E) 0.00528

- 91) Sanqwey decides to begin investing some portion of his annual bonus, beginning this year with \$5,000. In the first year he earns a 10 percent return and adds \$4,000 to his investment. In the second his portfolio loses 6 percent but, sticking to his plan, he adds \$3,000 to his portfolio. In this year his portfolio returns 4 percent. What is Sanqwey's dollar-weighted average return on his investments?
- A) 0.34%
 - B) 1.20%
 - C) 1.55%
 - D) 2.32%
 - E) 2.85%
- 92) You invested \$6,000 six years ago. The arithmetic average return on your investment is 9.3 percent and the geometric average return is 9.57 percent. What is the value of your portfolio today?
- A) \$10,092
 - B) \$10,382
 - C) \$10,899
 - D) \$10,947
 - E) \$11,195
- 93) Yoonsu owns a stock that has historically returned 6.3 percent annually with a standard deviation of 12.1 percent. There is only a 0.5 percent chance that the stock will produce a return greater than _____ percent in any one year.
- A) 24.3
 - B) 29.2
 - C) 38.1
 - D) 42.6
 - E) 45.8
- 94) Which one of the following had the highest risk premium for the period 1926 to 2024?
- A) U.S. Treasury bills
 - B) long-term government bonds
 - C) large-company stocks
 - D) small-company stocks
 - E) intermediate-term government bonds

- 95) An asset had annual returns of 17, -35, -18, 24, and 6 percent, respectively, over the past five years. What is the arithmetic average return?
- A) -1.2%
 - B) 0.8%
 - C) 1.2%
 - D) 1.6%
 - E) 2.3%
- 96) For the period 1926 to 2024, long-term government bonds had an average return that _____ the average return on long-term corporate bonds while having a standard deviation that _____ the standard deviation of the long-term corporate bonds.
- A) exceeded; was less than
 - B) exceeded; equaled
 - C) exceeded; exceeded
 - D) was less than; exceeded
 - E) was less than; was less than
- 97) A stock had year-end prices of \$24, \$27, \$32, and \$26 over the past four years, respectively. What is the geometric average return?
- A) 2.02%
 - B) 2.18%
 - C) 2.55%
 - D) 2.70%
 - E) 2.81%
- 98) An asset had annual returns of 13, 10, -14, 3, and 36 percent, respectively, for the past five years. What is the standard deviation of these returns?
- A) 8.96%
 - B) 16.05%
 - C) 17.92%
 - D) 18.09%
 - E) 20.03%

- 99) Which one of the following had the smallest standard deviation of returns for the period 1926 to 2024?
- A) large-company stocks
 - B) small-company stocks
 - C) long-term government bonds
 - D) intermediate-term government bonds
 - E) intermediate-term corporate bonds
- 100) Xin just sold a stock and realized a 6.25 percent return for a 7-month holding period. What was her annualized rate of return?
- A) 9.98%
 - B) 10.95%
 - C) 12.78%
 - D) 15.29%
 - E) 17.20%
- 101) The average risk premium on large-company stocks for the period 1926 to 2024 was:
- A) 6.7%.
 - B) 9.0%.
 - C) 8.5%.
 - D) 12.3%.
 - E) 13.6%.
- 102) The average compound return earned per year over a multiyear period is called the:
- A) total return.
 - B) average capital gains yield.
 - C) variance.
 - D) arithmetic average return.
 - E) geometric average return.

- 103) Russell decides to begin investing some portion of his annual bonus, beginning this year with \$12,000. In the first year he earns a 20 percent return and adds \$10,000 to his investment. In the second his portfolio loses 2 percent but, sticking to his plan, he adds \$8,000 to his portfolio. In this year his portfolio returns 15 percent. What is Russell's dollar-weighted average return on his investments?
- A) 6.34%
 - B) 7.20%
 - C) 8.55%
 - D) 9.32%
 - E) 9.76%
- 104) A stock has an average arithmetic return of 10.55 percent and an average geometric return of 10.41 percent based on the annual returns for the last 15 years. What is projected average annual return on this stock for the next 10 years?
- A) 10.17%
 - B) 10.21%
 - C) 10.38%
 - D) 10.46%
 - E) 10.79%
- 105) A stock has an average historical risk premium of 6.1 percent. The expected risk-free rate for next year is 2.2 percent. What is the expected rate of return on this stock for next year?
- A) 6.50%
 - B) 7.53%
 - C) 8.00%
 - D) 8.30%
 - E) 9.34%
- 106) An asset has an average historical rate of return of 13 percent and a variance of 0.0106. What range of returns would you expect to see approximately two-thirds of the time?
- A) -2.28% to + 24.48%
 - B) -6.52% to + 32.92%
 - C) -9.58% to + 38.8%
 - D) +2.70% to + 23.30%
 - E) +13.1% to + 13.3%

- 107) An asset has an average annual historical return of 16.1 percent and a standard deviation of 18.7 percent. What range of returns would you expect to see 95 percent of the time?
- A) -48.1% to + 56.0%
 - B) -43.4% to + 56.3%
 - C) -24.0% to + 47.2%
 - D) -21.3% to + 53.5%
 - E) -15.4% to + 40.1%
- 108) You purchased 300 shares of Giant common stock for \$25.30 a share, one year ago. Today, you sold your shares for \$25.40 a share. During this past year, the stock paid \$0.97 in dividends per share. What is your dividend yield on this investment?
- A) 3.16%
 - B) 3.37%
 - C) 3.44%
 - D) 3.83%
 - E) 3.93%
- 109) Sienna purchased 200 shares of Coulter Industries stock and held it for 3 months before reselling it. What is the value of "m" when computing the annualized return on this investment?
- A) 0.25
 - B) 0.33
 - C) 0.40
 - D) 3.00
 - E) 4.00

- 110) Jim began his investing program with a \$4,000 initial investment. The table below recaps his returns each year as well as the amounts he added to his investment account. What is his dollar-weighted average return?

Time	Investment	Return
0	\$ 4,000	10%
1	\$ 2,800	-5%
2	\$ 900	2%
3	\$ 1,600	8%
4	\$ 2,100	-3%
5	\$ 2,400	6%

- A) 1.6%
- B) 2.2%
- C) 2.6%
- D) 3.2%
- E) 3.6%
- 111) The geometric mean return on large-company stocks for the 1926 to 2024 period:
- A) is approximately equal to the arithmetic mean return plus one-half of the standard deviation.
- B) exceeds the arithmetic mean return.
- C) is approximately equal to the arithmetic mean return minus one-half of the standard deviation.
- D) is approximately equal to the arithmetic mean return plus one-half of the variance.
- E) is less than the arithmetic mean return.
- 112) The mean plus or minus one standard deviation defines the _____ percent probability range of a normal distribution.
- A) 50
- B) 68
- C) 82
- D) 90
- E) 95

- 113) One year ago, you purchased 200 shares of Southern Foods common stock for \$39.50 a share. Today, you sold your shares for \$35.40 a share. During this past year, the stock paid \$1.36 in dividends per share. What is your dividend yield on this investment?
- A) 3.165%
 - B) 3.375%
 - C) 3.443%
 - D) 3.533%
 - E) 3.610%
- 114) You own a stock that has an average geometric return of 12.30 percent and an average arithmetic return of 12.55 percent over the past six years. What average annual rate of return should you expect to earn over the next four years?
- A) 12.38%
 - B) 12.40%
 - C) 12.44%
 - D) 12.47%
 - E) 12.51%
- 115) Luis owns a stock that has had an average geometric return of 10.50 percent and an average arithmetic return of 11.00 percent over the past six years. What average annual rate of return should Luis expect to earn over the next four years?
- A) 10.38%
 - B) 10.40%
 - C) 10.64%
 - D) 10.70%
 - E) 10.81%
- 116) Jermaine purchased 750 shares of stock at a price of \$93.32 a share and received a dividend of \$2.41 per share. After nine months, he resold the stock for \$98.23 a share. What was his total dollar return?
- A) \$2,712
 - B) \$4,293
 - C) \$5,490
 - D) \$5,502
 - E) \$5,600

- 117) Which one of the following should be used as the mean return when you are defining the normal distribution of an investment's annual rates of return?
- A) arithmetic average return for the period
 - B) geometric average return for the period
 - C) total return for the period divided by $N - 1$
 - D) arithmetic average return for the period divided by $N - 1$
 - E) geometric average return for the period divided by $N - 1$
- 118) The average compound return earned per year over a multiyear period when investment inflows and outflows are considered is called the:
- A) total return.
 - B) average capital gains yield.
 - C) dollar-weighted average return.
 - D) arithmetic average return.
 - E) geometric average return.
- 119) A single common stock share was purchased for \$50.00 at the beginning of the year. The end of year stock price was \$49.35. What was the amount of the annual dividend if the total return for the year was 2.3 percent?
- A) \$1.25 per share
 - B) \$1.40 per share
 - C) \$1.60 per share
 - D) \$1.80 per share
 - E) \$2.20 per share

Answer Key

Test name: Chapter 01

- 1) D
- 2) C
- 3) C
- 4) B
- 5) E
- 6) D
- 7) D
- 8) C
- 9) E
- 10) D
- 11) B
- 12) D
- 13) D
- 14) E
- 15) B
- 16) C
- 17) A
- 18) E
- 19) A
- 20) B
- 21) A
- 22) B
- 23) A
- 24) D
- 25) A
- 26) D
- 27) B
- 28) D
- 29) B
- 30) A
- 31) B
- 32) D
- 33) D
- 34) E
- 35) E
- 36) C
- 37) D

- 38) D
- 39) C
- 40) E
- 41) A
- 42) D
- 43) D
- 44) D
- 45) C
- 46) D
- 47) A
- 48) B
- 49) E
- 50) B
- 51) C
- 52) A
- 53) D
- 54) D
- 55) B
- 56) D
- 57) A
- 58) D
- 59) D
- 60) B
- 61) C
- 62) D
- 63) B
- 64) E
- 65) C
- 66) A
- 67) A
- 68) D
- 69) C
- 70) C
- 71) E
- 72) C
- 73) C
- 74) D
- 75) B
- 76) A
- 77) B

- 78) B
- 79) D
- 80) E
- 81) E
- 82) D
- 83) D
- 84) C
- 85) A
- 86) E
- 87) B
- 88) E
- 89) D
- 90) E
- 91) C
- 92) B
- 93) D
- 94) D
- 95) A
- 96) D
- 97) D
- 98) D
- 99) D
- 100) B
- 101) B
- 102) E
- 103) E
- 104) D
- 105) D
- 106) D
- 107) D
- 108) D
- 109) E
- 110) C
- 111) E
- 112) B
- 113) C
- 114) B
- 115) D
- 116) C
- 117) A

- 118) C
- 119) D