1. Which of the following limit orders is *least likely* to be filled?
   (A) Inside-the-market limit sell order.
   (B) Aggressively priced limit buy order.
   (C) Behind-the-market limit buy order.

2. Compared to a market order to sell, a limit order to sell will specify:
   (A) a price that can be higher or lower than the current market price.
   (B) a minimum price equal to or less than the current market price.
   (C) a maximum price above the current market price.

3. An investor buys 200 shares of ABC at the market price of \$100 and posts the required initial margin of \$8,000. The maintenance margin requirement is 25%.
   At what share price will the investor's account balance be reduced to the maintenance margin level?
   (A) \$48.
   (B) \$80.
   (C) \$112.

4. The initial margin is the:
   (A) minimum amount of funds that must be supplied when purchasing a security on margin.
   (B) equity represented in the margin account at any time.
   (C) amount of cash that an investor must maintain in his/her margin account.

5. An order to sell a security at the best price available is a:
   (A) market order.
   (B) stop order.
   (C) limit order.

6. The providers of the Smith 30 Stock Index remove Jones Company from the index because it has been acquired by another firm, and replace it with Johnson Company. This change in the index is best described as an example of:
   (A) rebalancing.
   (B) reconstitution.
   (C) redefinition.

7. Which of the following is *least likely* required when defining a security market index? The:
   (A) number of securities in the index.
   (B) target market the index will represent.
   (C) weighting method for the index.

8. An analyst using the capital asset pricing model is most *likely* to use a security market index as a proxy for:
   (A) the market return.
   (B) beta.
   (C) the risk-free rate.

9. When using a security market index to represent a market's performance, the performance of that market over a period of time is *best* represented by:
   (A) the change in the index value.
   (B) the index value.
   (C) the percent change in the index value.

10. What is the price-weighted index of the following three stocks?

As of December 31, 2001		
Company	Stock Price	Shares Outstanding
A	\$50	10,000
B	\$35	20,000
C	\$110	30,000

   (A) 80.
   (B) 75.
   (C) 65.

11. Which of the following statements on the forms of the efficient market hypothesis (EMH) is *least* accurate?
   (A) The semi-strong form EMH assumes market prices reflect all public information.
   (B) The strong-form EMH assumes market prices reflect all public and private information.
   (C) The weak-form EMH assumes market prices reflect current public market information and expectations.

12. If stock markets are semistrong-form efficient, a portfolio manager is *least likely* to create value for investors by:
    (A) allocating invested funds among asset classes.
    (B) analyzing financial statements to select undervalued stocks.
    (C) monitoring clients' needs and circumstances.

13. A market's efficiency is *most likely* to decrease by:
    (A) substantial analyst coverage of exchange-listed companies.
    (B) a ban on short selling.
    (C) high volumes of trading activity.

14. Under the efficient market hypothesis (EMH), the major effort of the portfolio manager should be to:
    (A) achieve complete diversification of the portfolio.
    (B) follow a strict buy and hold strategy.
    (C) minimize systematic risk in the portfolio.

15. Which of the following forms of the EMH assumes that no group of investors has monopolistic access to relevant information?
    (A) Strong-form.
    (B) Weak-form.
    (C) Both weak and semistrong form.

16. Global depository receipts are most *likely* issued:
    (A) in the United States and denominated in U.S. dollars.
    (B) outside the issuer's home country and denominated in the exchange's home currency.
    (C) outside the issuer's home country and denominated in U.S. dollars.

17. Compared to a publicly traded firm, a private equity firm is *most likely* to:
    (A) disclose less financial information.
    (B) exhibit stronger corporate governance.
    (C) be more concerned with short-term results.

18. Private equity securities *most likely*.
    (A) are illiquid and do not have quoted prices.
    (B) trade in over-the-counter dealer markets.
    (C) are issued to individual investors.

19. The primary reason for a firm to issue equity securities is to:
    (A) acquire the assets necessary to carry out its operations.
    (B) improve its solvency ratios.
    (C) increase publicity for the firm's products.

20. Hodges Fund provides mezzanine stage financing to private companies. In which type of private equity investing is Hodges Fund most likely involved?
    (A) Leveraged buyout.
    (B) Private investment in public equity.
    (C) Venture capital.

21. A stock has a required rate of return of 15%, a constant growth rate of 10%, and a dividend payout ratio of 45%. The stock's justified price-earnings ratio is *closest* to:
    (A) 4.5 times.
    (B) 9.0 times.
    (C) 3.0 times.

22. Which of the following statements concerning security valuation is *least* accurate?
    (A) A firm with a $1.50 dividend last year, a dividend payout ratio of 40%, a return on equity of 12%, and a 15% required return is worth $18.24.
    (B) The best way to value a company with high and unsustainable growth that exceeds the required return is to use the temporary supernormal growth (multistage) model.
    (C) The best way to value a company expecting to pay a constantly growing dividend as from the third year is to use the Gordon growth model.

23. If all other factors remain unchanged, which of the following would *most likely* reduce a company's price/earnings ratio?
   (A) The dividend payout ratio increases, and the dividend growth rate increases.
   (B) The dividend growth rate increases, and the required rate of return decreases.
   (C) The required rate of return increases, and the dividend payout ratio decreases.

24. A stock is expected to pay a dividend of $1.50 at the end of each of the next three years. At the end of three years the stock price is expected to be $25. The equity discount rate is 16 percent. What is the current stock price?
   (A) $24.92.
   (B) $19.39.
   (C) $17.18.

25. Assume that a stock paid a dividend of $1.50 last year. Next year, an investor believes that the dividend will be 20% higher and that the stock will be selling for $50 at year-end. Assume a beta of 2.0, a risk-free rate of 6%, and an expected market return of 15%. What is the value of the stock?
   (A) $40.32.
   (B) $41.77.
   (C) $45.00.

26. Because of dividend displacement of earnings, the net effect on firm value of increasing the dividend payout ratio is:
   (A) indeterminate.
   (B) to decrease firm value.
   (C) to increase firm value.

27. The free cash flow to equity model is best described as a(n):
   (A) enterprise value model.
   (B) present value model.
   (C) single-factor model.

28. Robert Higgins is estimating the price-earnings (P/E) ratio that will be appropriate for an index at the end of next year. He has estimated that:
    - Expected annual dividends will increase by 10% compared to this year.
    - Expected earnings per share will increase by 10% compared to this year.
    - The expected growth rate of dividends will be the same as the current estimate of 5%.
    - The required rate of return will rise from 8% to 11%.

    Compared to the current P/E, the end-of-the-year P/E will be:
    (A) 50% lower.
    (B) 2% higher.
    (C) 10% higher.

29. Asset-based valuation models are *most appropriate* for a firm that:
    (A) has cyclical earnings.
    (B) has significant intangible assets.
    (C) is being liquidated.

30. The required rate of return on equity used as an input to the dividend discount model is influenced by each of the following factors EXCEPT:
    (A) the stock's appropriate risk premium.
    (B) the expected inflation rate.
    (C) the stock's dividend payout ratio.