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**Section I: Multiple Choice (1 point each)** Choose the one best answer from the choices provided and place the letter corresponding to that answer in the space provided to the left of the question number.

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- \_\_\_\_\_ 1. A call feature on a bond
- a. allows the investor to cash it in prior to maturity.
  - b. stipulates that the rate will increase if market rates increase.
  - c. allows the issuer to pay the bonds off early if they desire.
  - d. Either "a" or "c" are true.
- \_\_\_\_\_ 2. What does it mean when a stock splits?
- a. One share becomes multiple shares.
  - b. Multiple shares become one share.
  - c. The company is bankrupt and the stock is worthless.
  - d. Common stock is converted to preferred stock.
- \_\_\_\_\_ 3. Which of the following best describes a 3/3 ARM with 2/5 caps?
- a. It is an adjustable rate mortgage with an initial interest rate in effect for the first 3 years.
  - b. It is an adjustable rate mortgage whose rate can change every 2 years after the first change.
  - c. The interest rate cannot increase by more than 2 percentage points during the life of the loan.
  - d. All of the above are true.
- \_\_\_\_\_ 4. What does it mean to "diversify" your investments?
- a. Investing only in "socially" or "environmentally aware" companies.
  - b. Buying your investments at different times of year so that you maintain a constant income stream.
  - c. Investing in a variety of items so that market and price fluctuations will be likely to impact some, but not all, of your investments and therefore protect your wealth.
  - d. Diversification has been proven harmful to investors.
- \_\_\_\_\_ 5. Purchasing a stock
- a. Means that the company has borrowed money from the stock owner.
  - b. Generally affords someone the opportunity to vote on the company's major decisions.
  - c. Guarantees the purchaser an annual dividend.
  - d. All of the above are true.

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**Section II Short Answer/Essay** Use the information provided to completely answer the following questions. Points as indicated.

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1. Briefly answer the following questions regarding topics that we discussed in class tonight. **(10 points)**

**What is a bond?**

**What is the advantage of preferred stock over common stock?**

**Jay owns municipal bonds. Does he have to pay Federal income taxes on the interest he receives from those municipal bonds?**

**You have a \$1,000 bond with a coupon rate of 6%. Interest rates fall to 5%. Will your bond be worth more or less on the open market?**

**You need guaranteed investment income and you have the choice of either stocks or bonds. Which one should you choose and why?**

2. Here are more short questions regarding tonight's class. (2 points each)

List two advantages to investing in real estate-

Bob's investment had a one-year change in value of \$10 plus it generated \$5 income for him during the year. The beginning value of the investment was \$50. What was Bob's return on investment (ROI)?

There are two reasons to invest. What are those reasons?

What are "Blue Chip" stocks?