## Question #1 of 26

Value stocks are *most likely* to be characterized by:

**A)** Low price multiples.

**B)** Immature markets.

**C)** High earnings growth.

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## Question #2 of 26

The real rate of return is *most likely* higher:

**A)** Higher the utility investors attach to future consumption relative to current consumption.

**B)** Lower the expectations of lower income in the future.

**C)** Higher the expectations of lower income in the future.

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## Question #3 of 26

The price of a zero-coupon, inflation indexed, risk-free bond that pays $1 in one period is:

**A)** The expected value of the investors' inter-temporal rate of substitution between current period and one period from now.

**B)** Uncertain.

**C)** $1.00

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## Question #4 of 26

Market values of assets are *most likely* to be affected when either:

**A)** Real risk-free rates, inflation premium, timing/magnitude of expected cash flows change.

**B)** Risk free interest rates, risk premiums, timing and/or magnitude of expected cash flows change.

**C)** Real risk-free rates, risk premiums, timing/magnitude of expected cash flows change.

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## Question #5 of 26

Which of the following is *least likely* to explain a decline in the S&P 500 index:

**A)** An increase in Treasury yields.

**B)** A decrease in expectations about corporate earnings.

**C)** A decline in expected inflation.

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## Question #6 of 26

Which of the following assets provides a most effective hedge against bad consumption outcomes?

**A)** Real estate

**B)** Equity

**C)** Risk-free bonds.



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## Question #7 of 26

Jeff Dentmat is expecting overall credit spreads to narrow over the next few years. Which of the following conclusions can Dentmat most appropriately make?

**A)** Risky bonds will outperform risk-free bonds.

**B)** High rated corporate bonds will outperform low-rated corporate bonds.

**C)** Government bonds will outperform low-rated corporate bonds.

## Question #8 of 26

Price multiples are *least likely* to increase when:

**A)** Equity risk premium increases.

**B)** Inflation expectations decline.

**C)** Earnings growth increases.

## Question #9 of 26

The break-even inflation rate is expected to be 2% over the next year. What is the credit spread for a 2% annual pay corporate bond maturing in one year with a market price of $96.91 ($100 par) if the real risk-free rate of return over the next year is 1%?

**A)** 2.25%

**B)** 2.00%

**C)** 0.19%

## Question #10 of 26

Janet Grange's current one-period inter-temporal rate of substitution is 0.95. Janet is *most likely* to invest in a default-free inflation indexed one-period bond if:

**A)** The bond's return is 5.26% or more.

**B)** The bond's return is 5% or more.

**C)** The bond's return is 4.89% or more.

## Question #11 of 26

ABC Inc. stock's price is inversely related to the business cycle; it is higher during economic downturns. Which of the following appropriately characterizes the consumption hedging property of an investment in ABC stock and the equity risk premium demanded by investors for an investment in it?

**A)** Due to its desirable consumption hedging ability, an investment in ABC stock would command a lower equity risk premium.

**B)** Due to its desirable consumption hedging ability, an investment in ABC stock would command a higher equity risk premium.

**C)** Due to its poor consumption hedging ability, an investment in ABC stock would command a higher equity risk premium.

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## Question #12 of 26

Sector rotation strategies are *least likely* to seek to:

**A)** relate business cycle to sector performance.

**B)** earn higher risk premium than any of the individual sectors.

**C)** Invest in better performing sector as soon as the shift starts materializing.

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## Question #13 of 26

As compared to an investment in equities, the difference in discount rate for valuation of commercial real estate is *most likely* due to:

**A)** lack of liquidity.

**B)** inflation uncertainty.

**C)** the break-even inflation rate.

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## Question #14 of 26

Credit spreads are *most likely* to:

**A)** Rise with policy rates.

**B)** Rise during recessions.

**C)** Rise during expansions.

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## Question #15 of 26

Corporate earnings from which of the following sectors would be most sensitive to business cycle?

**A)** Consumer durable

**B)** non-cyclical

**C)** Consumer non-discretionary

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## Question #16 of 26

Investors are *least likely* to increase their savings rate when:

**A)** Expected rates of returns increase.

**B)** Uncertainty about their future income increases.

**C)** Uncertainty about their future income decreases.

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## Question #17 of 26

The real rate of return is *most likely* higher:

**A)** Higher the utility investors attach to future consumption relative to current consumption.

**B)** Higher the expectations of lower income in the future.

**C)** Lower the utility investors attach to future consumption relative to current consumption.

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## Question #18 of 26

Rapidly developing economies like India and China have high GDP growth rates and therefore are *most likely* to have a:

**A)** High real rate, low inter-temporal rate of substitution and a high rate of current borrowing by investors.

**B)** Low real rate, high inter-temporal rate of substitution and a low rate of current borrowing by investors.

**C)** High real rate, low inter-temporal rate of substitution and a high rate of borrowing by investors.

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## Question #19 of 26

Differences in credit spreads across sectors are *least likely* due to:

**A)** Differences in leverage typical of the sector.

**B)** Differences in ratings.

**C)** Differences in services and products that an industry produces.

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## Question #20 of 26

Market values of assets are *most likely* to be affected when:

**A)** New information reveals that market's expectations about earnings were accurate.

**B)** New information confirms markets expectations of future earnings.

**C)** New information reveals that market's expectations about earnings were inaccurate.

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## Question #21 of 26

Break-even inflation rate is *most appropriately* described as the:

**A)** The difference in yields between long-dated and short-dated government bonds.

**B)** The difference in yields of non-inflation indexed and inflation indexed risk-free bonds.

**C)** The difference between market's expectation of the inflation rate and the risk premium for inflation uncertainty.

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## Question #22 of 26

The marginal utility of current consumption is *most likely* higher:

**A)** During economic contractions.

**B)** During economic expansions.

**C)** Higher the wealth.

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## Question #23 of 26

If the market expects inflation to decrease over the next few years but the uncertainty about inflation was increasing, the break-even inflation rate is *most likely* to:

**A)** Be uncertain.

**B)** Decrease.

**C)** Increase.

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## Question #24 of 26

Which of the following is *most likely* to be the shape of the yield curve during recessions?

**A)** Downward sloping

**B)** Flat

**C)** Upward sloping

## Question #25 of 26

The risk-premium for uncertainty in inflation is *most likely* to be:

**A)** negatively related to the term spread.

**B)** positively related to the term spread.

**C)** unrelated to the term spread.

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## Question #26 of 26

Spreads for issuers in the consumer cyclical sector are *most likely* to:

**A)** Decrease during economic downturns.

**B)** Be unrelated to business cycle.

**C)** Increase during economic downturns.