c3

Student: ____

1. Which of the following best describes a risk averse investor.
A. An investor who will accept higher risk only if there is a higher guaranteed return
B. An investor seeking only investments without risk.
C. An investor who seeks to minimize the amount of risk needed to achieve their return objective.
D. An investor who is not willing to accept greater risk to achieve higher potential returns.
E. An investor whose desire to avoid risk can only achieve moderate returns on their portfolio.

2. Which of the following is NOT an investor constraint?
A. Liquidity
B. Time Horizon
C. Marginal Tax Rate
D. Expected Rate of Return
E. Investor's Resources

3. The most fundamental decision for an investor when considering their investment objectives is the _________.
A. financial resources they have available.
B. investment style they wish to pursue.
C. rate of return they desire.
D. amount of risk they are willing to bear.
E. liquidity they require in their portfolio.

4. An investor who tries to anticipate the overall movement of the market is employing a ______________ strategy.
A. market timing
B. security selection
C. security analysis
D. passive market
E. portfolio balancing

5. Research suggests that 90 percent of a portfolio's performance is determined by _________.
A. market timing
B. security selection
C. asset allocation
D. portfolio efficiency
E. risk aversion

6. Market timing is the:
A. placing of an order within the last half-hour of trading for a day.
B. period of time between the placement of a short sale and the covering of that sale.
C. buying and selling of securities in anticipation of the overall direction of the market.
D. staggering of either buy or sell orders to mask the total size of a large transaction.
E. placing of trades within the last half-hour prior to the commencement of daily trading.

7. Asset allocation is the:
A. selection of specific securities within a particular class or industry
B. division of a purchase price between a cash payment and a margin loan.
C. division of a portfolio into short and long positions.
D. distribution of investment funds among various broad asset classes.
E. dividing of assets into those that are hypothecated and those that are not.

8. The insurance fund that covers investors' brokerage accounts with member firms when they go bankrupt is called the:
A. CDIC.
B. CIPF.
C. CRA.
D. TSX.
E. NASDAQ.

9. A brokerage account in which purchases can only be made if sufficient funds are available is called a(n) ____ account.
A. Clearing
B. Access available
C. Cash
D. Call
E. Margin

10. A brokerage account which permits the investor to buy and sell securities on credit is a(n) ___ account.
A. Cash
B. Short
C. Open
D. Margin
E. hypothecation

11. You are buying $21,000 worth of a stock. You are paying 65% in cash and borrowing the remaining 35% of the cost. The 65% is referred to as the _____, which is the portion of the value of an investment that is *not* borrowed.
A. Call money
B. Brokerage
C. Initial margin
D. Hypothecation
E. Short interest

12. The call money rate is the
A. Rate at which you borrow money to make a margin purchase
B. Percentage of a security's value that must be paid to a broker when you receive a marginal call
C. Percentage interest rate that must be paid on any margin shortfall until the brokerage firm receives the funds requested in a margin call
D. Rate at which the brokerage firm borrows funds that are subsequently loaned to margin customers
E. Minimum percentage rate of equity that must be maintained at all times

13. The minimum equity that must be kept at all times in a margin account is called the _____ that is an established value cannot fall below.
A. Initial margin
B. Initial equity position
C. Maintenance margin
D. Call requirement
E. Margin call

14. A _______ is a call issued by your brokerage firm asking for more funds when your equity position in a security is less than the required amount.
A. margin call
B. hypothecation agreement
C. short sale
D. maintenance requirement
E. call money sale

15. The return on an investment expressed on an annualized basis is called the
A. Earned return
B. Leveraged return
C. Holding-period percentage return
D. Annual percentage rate
E. Effective annual return

16. ________ is the process of pledging securities as collateral against a margin loan.
A. A street name registration
B. A margin agreement
C. A brokers call agreement
D. A short sale
E. Hypothecation

17. You own 500 shares of XYZ stock but your brokerage firm is listed as the registered owner of the securities. Under this arrangement, the securities are said to be held in:
A. brokers call registration.
B. street name registration.
C. hypothecation.
D. a margin agreement.
E. a shorts sale agreement.

18. In a ________ sale, you are selling a security that you do not currently own.
A. hypothecation
B. margin
C. street name
D. short
E. brokers call

19. Short interest is the number of shares of common stock
A. Held in short position
B. Held in margin account
C. Pledged as security for margin loans
D. For which sell orders are outstanding
E. For which buy orders are outstanding

20. Having ________ means an asset can be sold quickly without significant price concession. The term describes the ease with which a security can be converted to cash.
A. Timing
B. Liquidity
C. Turnover
D. call money
E. short interest

21. ________ is buying and selling securities in anticipation of the overall direction of the capital market. Investment in the market is increased if one forecasts that this market will outperform the money market instruments such as T-bills.
A. Market timing
B. Asset allocation
C. Security selection
D. Asset management
E. Margin timing

22. The distribution of an investment among various broad categories of assets is known as ___________.
A. market timing
B. asset allocation
C. security selection
D. asset management
E. margin timing

23. ________ refers to the selection of assets within a particular class of investments. For example, you are reviewing pharmaceutical firms to determine which firm's stock to purchase.
A. Market timing
B. Asset allocation
C. Security selection
D. Asset management
E. Margin timing

24. Buying a diverse group of securities without focusing on particular securities is known as _______________.
A. asset allocation
B. passive investing
C. market timing
D. active investing
E. asset management

25. The process of trying to buy specific securities that we expect to be the "winners" in the future is called _______.

A. asset allocation
B. passive investing
C. market timing
D. active investing
E. asset management

26. The amount by which the interest rate on your margin account exceeds your broker's call money rate is called the

A. Margin rate
B. Short rate
C. Spread
D. Overnight rate
E. Cash rate

27. You recently inherited $284,000 that you wish to invest in the stock and bond markets. However, you have no investment experience and want a knowledgeable professional to make all of your investment decisions for you. You most likely need the services offered by

A. A deep-discount broker
B. A discount broker
C. A full-service broker
D. An on-line broker
E. A cyber-broker

28. Why would a broker whom is engaged in churning be at a conflict of interest with their client?

A. Investing in risky securities is counter to the interest of a risk averse investor.
B. The broker is trading to generate income for themselves and not returns for the investor.
C. The broker isn't performing the due diligence necessary to provide accurate advice.
D. The broker knows that the client has signed an agency contract agreeing not to sue.
E. The broker is required to inform the client before buying securities created by their firm.

29. A broker makes ten trades on an account for the purpose of generating commissions. The broker may be guilty of _______.

A. Fraud
B. Hypothecation
C. Churning
D. money trading
E. call trading

30. You have an investment account with a brokerage firm that is CIPF insured. The account consists of $40,000 in cash, and $170,000 in securities. Which one of the following is true regarding this account?
A. Only $100,000 of the account is insured against fraud
B. The $40,000 of cash and $60,000 of the securities are insured against losses from any source
C. The entire account is guaranteed safe by the Canadian government agency issuing the CIPF insurance
D. The $40,000 in cash plus the first $100,000 in securities is guaranteed by the private insurance fund backing the CIPF insurance
E. The entire account is protected by a private fund but only for losses resulting from fraud or other failure of the brokerage firm

31. You purchase a stock on margin. If the stock price drops, your return will be ____ than if you had purchased the stock with cash. If the stock price rises, your return will be ____ than if you had purchased the stock with cash.
A. lower; lower
B. lower; greater
C. greater; greater
D. greater; lower
E. Insufficient information.

32. Which of the following is true?
A. Advice received from your broker is guaranteed to be accurate
B. Most brokerage agreement require disputes to be settled in a count of law
C. Arbitrage is the legal process of settling a case without a jury
D. The churning of a customer's account is a recommended brokerage activity
E. Commission brokers always have a potential conflict of interest with their clients

33. Which of the following is not an advantage of street name registration?
A. The broker provides all tax information on a single form.
B. There is no danger of theft or other loss of the security.
C. Dividends and interest are automatically credited to the shareholder account.
D. It generally results in lower commissions charged.
E. The broker provides regular account statements.

34. If you are risk averse, you will:
A. only invest in low-risk investments.
B. invest in an asset based only on its return, ignoring the risk of the asset.
C. invest only in high-risk assets.
D. invest in riskier assets only if there is additional return for taking the extra risk.
E. avoid risk at all costs.

35. The trustees inform you that your brokerage company has gone bankrupt. The CIPF insures your trading account up to ______ for losses of cash and securities.
A. $1,000,000
B. $100,000
C. $200,000
D. $500,000
E. $10,000

36. You want to buy $10,000 of securities in your margin account. Your advisor has informed you that you must pay a minimum of $65,000 or 6.5% of the purchase price in cash and thereafter maintain a minimum equity position of 30%. The initial margin requirement is ___ and the maintenance margin is ____
A. 35%; 30%
B. 35%; 70%
C. 65%; 30%
D. 65%; 35%
E. 65%; 70%

37. In Canada, the margin requirement for security trading is determined by the:
A. Provincial Securities Commission.
B. Investment Dealers Association (IDA).
C. Toronto Stock Exchange.
D. Bank of Canada.
E. individual brokerage firm.

38. When you purchase a stock on margin, the money is borrowed from:
A. your broker.
B. a bank.
C. the Toronto Stock Exchange.
D. the Bank of Canada.
E. another investor.

39. Which of the following can be a constraint for an investor?
A. Taxes.
B. Time horizon.
C. Liquidity.
D. Resources
E. All of the above.

40. The CIPF guarantees your general brokerage account up to ______ for any combination of cash and securities, and an additional ____ for each separate account.
A. $1,000,000; $100,000
B. $600,000; $200,000
C. $400,000; $100,000
D. $600,000; $100,000
E. $1,000,000; $1,000,000

41. If your securities are unavailable to be returned, ____ can, at its option, compensate you for the market value of those securities as of the bankruptcy date instead of giving back the physical securities.
A. CDIC.
B. OSC.
C. CIPF.
D. CRA.
E. IDA.

42. You actively research macroeconomic factors and move between stocks and bonds in an attempt to time the market. Your investment is in stock and bond index funds. You have a(n) _____ asset allocation strategy and a(n) _____ security selection strategy.
A. active; active
B. active; passive
C. passive; passive
D. passive; active
E. None of the above.

43. Which of the following is the least compelling reason to use a professional money manager?
A. The investor has limited time available for research.
B. It may be more cost effective.
C. The investor may have limited knowledge.
D. The investor needs professional guidance.
E. Professional money managers generally generate superior returns.

44. You actively research market sectors to determine the sectors you feel will perform the best and then research these sectors to determine the best securities in each sector. You have a(n) _____ asset allocation strategy and a(n) _____ security selection strategy.
A. active; active
B. active; passive
C. passive; passive
D. passive; active
E. none of the above.

45. You are buying \$10,000 worth of stock by putting up % 6,000 in cash and borrow the balance. This is an example of a transaction in a(n) ____ account.
A. Cash
B. Wrap
C. Short
D. Margin
E. Asset allocation

46. If you ignore a margin call, your broker
A. Will create a loan on your behalf to cover the call amount
B. Will sell all of your securities and close your account
C. May place a short sale on your behalf to cover the amount of the call
D. Will increase both margin loan and the rate of interest on that loan
E. May sell some of your securities

47. You invest 60 percent of your money in stocks and 40 percent of your money in bonds. Your investments are all in mutual funds. You have a(n) _____ asset allocation strategy and a(n) _____ security selection strategy.
A. active; active
B. active; passive
C. passive; passive
D. passive; active
E. none of the above.

48. Which of the following is false concerning margin?
A. The Investment Dealers Association of Canada sets the margin requirement.
B. An initial margin of 100 percent is basically the same as a cash purchase.
C. All financial products on the exchanges can be traded with margin accounts.
D. Different margin requirements apply to different types of securities.
E. Securities purchased on margin must be left with the brokerage firm in street name.

49. When the initial margin requirement is lowered from 70% to 40%, this change means
A. The OSC is officially recognizing that the stock market is too tight
B. Your broker may now arrange for a 60% loan on the value of stock collateral
C. The maintenance margin will also decline by 10%
D. Credit to finance stock purchase is less available that previously
E. Stock purchases will probably not pay lower interest rates on their accounts

50. Your investment strategy consists of holding 70 percent stocks and 30 percent bonds. You research stocks and bonds in order to find the best performers. You have a(n) _____ asset allocation strategy and a(n) _____ security selection strategy.
A. active; active
B. active; passive
C. passive; passive
D. passive; active
E. none of the above.

51. Which of the following is false regarding short sales?
A. The maximum potential loss on a short sale is unlimited.
B. You will receive a margin call on a short sale only if the stock price rises.
C. The maximum potential dollar gain from a short sale is the stock price when shorted.
D. A short sale must be covered within one year.
E. If you short a dividend paying stock you must pay for any dividends the stock pays while you are shorting the stock.

52. Shares for short sales are
A. borrowed from other brokerage firms.
B. typically shares held by the short seller's broker in street name.
C. borrowed from commercial banks.
D. both (A) and (B).
E. both (B) and (C).

53. Which of the following is false regarding margin?
A. Margin accounts typically allow for unlimited margin purchases.
B. The spread you pay above the call money rate typically declines as you borrow more.
C. You must sign a hypothecation agreement to purchase stocks on margin.
D. You own 100 shares of Stock X purchased with cash and purchase 100 shares of Stock Y on margin. If you do not cover a margin call, your broker can sell shares of Stock X until you meet the maintenance margin.
E. The initial margin requirement on government bonds is lower than the initial margin requirement on stocks.

54. A brokerage account that provides money management, cheque writing privileges, credit cards, and margin loans is called a(n) _____ account.
A. asset management
B. discretionary
C. wrap
D. advisory
E. cash

55. A brokerage account in which the broker can make buy and sell decisions for the account holder without notification is called a(n) ______ account.
A. asset management
B. discretionary
C. wrap
D. advisory
E. cash

56. A brokerage account in which the account holder is the sole person responsible for making transaction decisions is known as a(n) ______ account.
A. asset management
B. discretionary
C. wrap
D. advisory
E. mutual

57. In a(n) _____ account, you choose a money manager or several money managers offered by the brokerage and all commissions and costs are covered by a single fee.
A. asset management
B. discretionary
C. wrap
D. advisory
E. cash

58. Short selling is:
A. a low risk strategy.
B. a bear market strategy.
C. non-taxable.
D. a bull market strategy.
E. a recommended strategy for investors with losses.

59. The big attraction offered by margin accounts is
A. Leverage potential
B. Capital gains
C. Interest reduction
D. Less risk
E. All of the above

60. An investor places $200,000 in a discretionary account and makes all trades based on his own research. Three years later the account is worthless. To somehow recover his money, the investor can:
A. file a claim with the CIPF.
B. file a lawsuit.
C. request an arbitration hearing.
D. file a claim with the provincial securities commission.
E. none of the above.

61. If you are an experienced investor who is greatly concerned about commission paid, you probably need a(n) _____ broker.
A. naive
B. discount
C. deep-discount
D. online
E. full service

62. Margin is equal to the:
A. amount borrowed by the account equity.
B. account equity divided by the value of the stock.
C. account equity divided by the amount borrowed.
D. stock value divided by the account equity.
E. account equity minus the stock value.

63. Hypothecation primarily protects:
A. brokers.
B. investors.
C. stock exchanges.
D. the Bank of Canada.
E. the OSC.

64. Assume you purchase a stock on margin, and compare your returns with a cash purchase. If the stock return is positive, the effect of margin will make your return _____ than if you had purchased the stock with cash. If the stock return is negative, the effect of margin will make your return _____ than if you had purchased the stock with cash.
A. lower; lower
B. lower; higher
C. higher; higher
D. higher; lower
E. insufficient information

65. Which of the following is true regarding broker-client relationships?
A. A typical brokerage agreement states the client waives the right to a jury trial and, instead, is bound by arbitration.
B. Any advice received from a broker is not guaranteed.
C. A broker has a legal duty to act in the client's best interest.
D. Your protection is shared over all of the brokers if you have brokerage accounts with more than one CIPF member when bankruptcy arises.
E. All of the above.

66. An experienced investor concerning so much about commission paid probably needs a(n)
A. Naïve
B. Discount
C. Deep-discount
D. Online
E. Full service

67. The biggest advantage(s) offered by margin accounts is(are):
A. less risk involved
B. leverage potential
C. unlimited capital gains
D. non-taxable interest deduction
E. all of the above

68. You have an investment portfolio comprised of multiple stocks and bonds. You make no attempt to time the market and sell securities only as you need to supplement your retirement income. You have a(n) _____ investment strategy.
A. Active
B. Passive
C. Pure liquid
D. Liquidity based
E. Tax-managed

69. A stock sells for $19 per share. You have $4,800 to invest and would like to purchase the stock on margin. What is the maximum number of shares you can buy if the initial margin is 70 percent?
A. 181 shares
B. 243 shares
C. 327 shares
D. 360 shares
E. 297 shares

70. You are opening a margin account with $12,500 in cash. The initial margin is 60% and the maintenance margin is 40%. What is the maximum number of shares you can purchase of a stock that is priced at $42 a share?
A. 496
B. 550
C. 698
D. 744
E. 842

71. You have a margin account with a 65% initial margin and a 30% maintenance margin. What is the maximum amount you can purchase of a stock if your cash balance in the account is $14,600?
A. $19,710.00
B. $22,461.54
C. $24,090.00
D. $41,713.79
E. $48,666.67

72. You deposit $8,000 to purchase 400 shares of stock at a price of $37 per share. What is your initial margin?
A. 61%
B. 54%
C. 59%
D. 48%
E. 41%

73. You currently purchased 800 shares of stock on margin at a price of $6.80 per share. Your broker required a cash payment of $5,440 plus trading costs. What was the initial margin requirement on this particular stock?
A. 70%
B. 75%
C. 80%
D. 90%
E. 100%

74. You purchase 800 shares of stock on margin at a price of $46 per share. If the initial margin is 60 percent, what is your margin loan?
A. $16,960
B. $22,080
C. $18,310
D. $36,800
E. $14,720

75. You purchase 300 shares of stock at a price of $36 per share on 50 percent margin. What is the most you can lose?
A. $10,800
B. $5,000
C. $3,600
D. $5,400
E. There is no limit.

76. You purchased 300 shares of ABC stock on margin when the stock was selling for $24 a share. The stock is currently selling for $28 a share. What is the minimum amount of equity you must have in this security to avoid a margin call if the maintenance margin is 40%?
A. $2,880
B. $2,910
C. $3,155
D. $3,245
E. $3,360

77. You own 300 shares of a stock that you purchased on margin. The stock is currently valued at $19 a share. Your broker advised you today that your minimum equity position for this purchase is $1,710 as of today. What is the maintenance margin percentage?
A. 25%
B. 30%
C. 35%
D. 40%
E. 50%

78. You purchased 400 shares of ABC stock for $14 a share. The stock was purchased with an initial margin of 55%. The maintenance margin is 30%. The stock is currently selling for $12 a share. What is the minimum dollar amount of equity that you must have today to avoid a margin call?
A. $1,440
B. $1,510
C. $1,155
D. $1,245
E. $1,360

79. You short 300 shares of stock at a price of $36 per share on 50 percent margin. What is the most you can lose?
A. $10,800
B. $5,000
C. $3,600
D. $5,400
E. There is no limit.

80. A stock is currently priced at $76 per share. If the initial margin is 60 percent, how many shares can you purchase if you have $15,000 to invest in the stock?
A. 164 shares
B. 366 shares
C. 268 shares
D. 328 shares
E. 183 shares

81. You purchased 700 shares of a stock for $21 a share. Today, the stock is selling for $16 a share. The initial margin was 70% and the maintenance margin is 30%. You had to pay ____ in cash to purchase the stock and must have at least ____ in equity today.
A. $10,290; $3,360
B. $7,840; $10,290
C. $7,840; $3,360
D. $3,360; $7,840
E. $4,410; $3,360

82. You purchased 200 shares of a stock for $28 a share and sold them 4 months later for $30 a share. The initial margin was 60%. You received no dividend income. Your holding period return was _____ while it would have been ____ if not used margin for the purchase. Ignore interest and trading costs.
A. 10.29%; 6.99%
B. 10.95%; 9.06%
C. 11.90%; 7.14%
D. 11.90%; 17.87%
E. 10.45%; 11.90%

83. You purchased 100 shares of a stock for $22 a share and sold them 7 months later for $26 a share. The initial margin was 70% and the maintenance margin was 35%. You received no dividend income. Your holding period return was _____ while it would have been ____ if not used margin for the purchase. Ignore interest and trading costs.
A. 10.29%; 6.99%
B. 18.18%; 25.97%
C. 25.97%; 18.18%
D. 11.90%; 17.87%
E. 10.45%; 11.90%

84. You have $25,000 to invest and want to purchase stock on margin. If the stock currently sells for $110 per share, and the initial margin is 60 percent, how many shares can you purchase?
A. 378 shares
B. 346 shares
C. 294 shares
D. 227 shares
E. 362 shares

85. You deposit $10,000 into an account and purchase 600 shares of stock at a price of $29 per share on margin. What is your initial margin?
A. 46%
B. 65%
C. 57%
D. 50%
E. 43%

86. You buy 800 shares of stock at a price of $57 per share on 70 percent margin. How much money did you borrow?
A. $45,600
B. $18,300
C. $21,200
D. $31,920
E. $13,680

87. You purchase 1,000 shares of stock at a price of $56 with an initial margin or 50 percent. If you sell the stock when the price is $63 per share, what was your holding period return? Ignore transaction costs and margin interest.
A. 22.50%
B. 16.25%
C. 12.50%
D. 18.75%
E. 25.00%

88. You obtain a margin loan of $18,000 to purchase stocks. The effective interest rate on the loan is 7.8 percent. If you repay the loan in 3 months, how much interest will you pay?
A. $275.00
B. $243.13
C. $341.18
D. $326.34
E. $376.54

89. A margin loan for $20,000 is charged an effective interest rate of 8.5 percent. If the loan is repaid in 9 months, how much interest is charged?
A. $1,275.00
B. $1,243.13
C. $1,261.91
D. $1,226.34
E. $1,276.54

90. You purchase 200 shares of stock at a price of $42 per share on a 60 percent initial margin. If you are charged an effective rate of 6.9 percent on the margin loan, how much interest will you be charged if you repay the loan in 6 months?
A. $109.18
B. $113.99
C. $115.92
D. $171.47
E. $173.88

91. You purchase 700 shares of stock at a price of $98 per share on a 50 percent initial margin. If you are charged an effective rate of 7.3 percent on the margin loan, how much interest will you be charged if you repay the loan in 4 months?
A. $834.63
B. $829.64
C. $804.62
D. $814.30
E. $802.14

92. Eight hundred shares of stock were purchased at a price of $82 per share and an initial margin of 60 percent. If the stock was sold when the price was $89, what was the investment return for the period you own the stocks? Ignore transaction costs and margin interest.
A. 9.78%
B. 14.23%
C. 8.54%
D. 16.21%
E. 12.87%

93. The call money rate is 6.5 percent, and you pay a 1.3 percent spread above that. You buy 1,500 shares at a price of $56, and an initial margin of 50 percent. You close the position one year later at a stock price of $61. What was your return?
A. 8.93%
B. 12.34%
C. 11.83%
D. 9.65%
E. 10.06%

94. You sold a stock that returned 5.6% over a 3-month period. What was your annualized rate of return?
A. 21.67%
B. 22.40%
C. 23.49%
D. 24.35%
E. 25.105%

95. You paid $600 interest on a 9-month $15,000 margin loan. What was the effective interest rate on the loan?
A. 6.67%
B. 5.91%
C. 5.49%
D. 4.35%
E. 5.10%

96. You purchase 900 shares of stock at a price of $45 and an initial margin of 60 percent. The call money rate is 6.3 percent and you pay a spread of 2.1 percent. One year later, you close your position at a stock price of $53. If the stock paid an annual dividend of $0.78 per share, what was your return?
A. 29.01%
B. 26.92%
C. 30.62%
D. 27.89%
E. 24.03%

97. You purchase 800 shares of stock at a price of $102 and an initial margin of 50 percent. The call money rate is 5.2 percent and you pay a spread of 1.7 percent. A year later, you close your position at a stock price of $94. With an annual dividend of $1.80 per share, what was your return?
A. - 14.32%
B. - 22.59%
C. - 19.06%
D. - 6.08%
E. - 12.64%

98. You owned a stock for 2 months and earned an annualized return of 13.28%. What was the rate of return for the 2-month period?
A. 2.10%
B. 1.12%
C. 2.59%
D. 1.71%
E. 2.87%

99. You short sell 400 shares of stock at $51 a share. The initial margin of 50 percent and the maintenance margin is 25%. What is the amount of your total liability for this transaction as initially shown on your account balance sheet?
A. $8,500
B. $19,000
C. $17,000
D. $9,500
E. $20,400.

100. You short sell 500 shares of stock at $24 a share. One month later, you covered the short at a price of $25. What was your total dollar return on this investment? Ignore margin interest, trading costs and taxes.
A. - $500
B. - $250
C. - $100
D. $500
E. $250

101. Today, you short sell 200 shares of stock at $34 a share. The initial margin is 60% and the maintenance margin is 30%. Which of the following is correct concerning your account balance sheet for this transaction? Ignore margin interest, trading costs and taxes.
A. You have an asset of $4,080 from the proceeds
B. You have a liability from the short position of $2,720
C. Your account equity is $4,080
D. Your initial margin is $2,720
E. Your total assets are $6,800

102. You short sell 800 shares of stock at $13 a share. The initial margin is 50% and the maintenance margin is 25%. The stock is currently selling for $11 a share. What is the amount of your account equity now?
A. $1,600
B. $5,200
C. $6,800
D. $8,800
E. $10,400

103. You short sold 200 shares of ABC stock at $56 a share at initial margin of 50%. What is the highest the stock price can go before you receive a margin call if the maintenance margin is 35%?
A. $60.18
B. $62.22
C. $65.45
D. $68.00
E. $70.89

104. The stock of Clapton Industries is selling at a price of $96 per share. You short 600 shares at an initial margin of 50 percent. If the maintenance margin is 30 percent, at what price will you receive a margin call?
A. $111.96
B. $116.19
C. $114.32
D. $110.77
E. $115.09

105. You short 300 shares of stock at a price of $37 with a 60 percent initial margin. If the maintenance margin is 30 percent, at what price will you receive a margin call?
A. $45.54
B. $46.67
C. $58.29
D. $53.78
E. $55.06

106. 1,200 shares of a stock are purchased at a price of $54 on a 70 percent initial margin. If the maintenance margin is 35 percent, at what stock price will a margin call be issued?
A. $25.47
B. $24.92
C. $28.32
D. $18.65
E. $22.23

107. You purchase 300 shares of stock on a 60 percent initial margin. If the stock price when purchased was $29 and the maintenance margin is 30 percent, at what stock price will you receive a margin call?
A. $12.14
B. $17.05
C. $14.79
D. $13.51
E. $16.57

108. You purchase 200 shares of stock at a price of $22 per share. If the initial margin was 60 percent and the maintenance margin is 25 percent, at what stock price will you receive a margin call?
A. $11.00
B. $12.63
C. $13.96
D. $10.07
E. $11.73

109. Two thousand shares of stock are shorted at a price of $26 and an initial margin of 55 percent. If the maintenance margin is 35 percent, what is the critical stock price?
A. $30.93
B. $31.67
C. $30.12
D. $29.85
E. $32.26

110. You purchase 500 shares of stock at a price of $68 on an initial margin of 50 percent. If the stock price rises to $74, what is your margin now?
A. 55.91%
B. 56.27%
C. 54.05%
D. 59.32%
E. 56.32%

111. You purchase 1,100 shares of stock at a price of $36 on an initial margin of 60 percent. If the stock price falls to $31, what is your margin now?
A. 53.55%
B. 51.07%
C. 48.32%
D. 56.21%
E. 52.06%

112. You sold short 100 shares at $50 a share. The initial margin was 60 percent. What is the maintenance margin if a margin call is made at a stock price of $60?
A. 23.64%
B. 7.88%
C. 25.82%
D. 18.64%
E. 33.33%

113. You short sell 500 shares of stock at an initial margin of 50 percent. What is the most you can make on this transaction if the short sale occurs at a price of $38 per share?
A. $8,500
B. $19,000
C. $17,000
D. $9,500
E. There is no limit.

114. List the three types of brokers, and discuss the advantages and disadvantages of each.

115. What is a margin purchase? Why would you buy on margin? What are the key benefits and risks?

116. What is a short sale? Why do investors short a stock?

117. List and explain the five most important investor constraints.

118. Why are investors and their brokers sometimes on different sides of the fence when it comes to trading decisions?

119. Why would a brokerage firm have different margin requirements on different securities?

c3 Key

1. Which of the following best describes a risk averse investor.
A. An investor who will accept higher risk only if there is a higher guaranteed return
B. An investor seeking only investments without risk.
C. An investor who seeks to minimize the amount of risk needed to achieve their return objective.
D. An investor who is not willing to accept greater risk to achieve higher potential returns.
E. An investor whose desire to avoid risk can only achieve moderate returns on their portfolio.

Jordan - Chapter 03 #1
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Risk Aversion

2. Which of the following is NOT an investor constraint?
A. Liquidity
B. Time Horizon
C. Marginal Tax Rate
D. Expected Rate of Return
E. Investor's Resources

Jordan - Chapter 03 #2
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Investor Constraints

3. The most fundamental decision for an investor when considering their investment objectives is the _________.
A. financial resources they have available.
B. investment style they wish to pursue.
C. rate of return they desire.
D. amount of risk they are willing to bear.
E. liquidity they require in their portfolio.

Jordan - Chapter 03 #3
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Investor Objectives

4. An investor who tries to anticipate the overall movement of the market is employing a _____________ strategy.

A. market timing
B. security selection
C. security analysis
D. passive market
E. portfolio balancing

Jordan - Chapter 03 #4
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Market Timing

5. Research suggests that 90 percent of a portfolio's performance is determined by _________.

A. market timing
B. security selection
C. asset allocation
D. portfolio efficiency
E. risk aversion

Jordan - Chapter 03 #5
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Asset Allocation

6. Market timing is the:

A. placing of an order within the last half-hour of trading for a day.
B. period of time between the placement of a short sale and the covering of that sale.
C. buying and selling of securities in anticipation of the overall direction of the market.
D. staggering of either buy or sell orders to mask the total size of a large transaction.
E. placing of trades within the last half-hour prior to the commencement of daily trading.

Jordan - Chapter 03 #6
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Market Timing

7. Asset allocation is the:
A. selection of specific securities within a particular class or industry
B. division of a purchase price between a cash payment and a margin loan.
C. division of a portfolio into short and long positions.
D. distribution of investment funds among various broad asset classes.
E. dividing of assets into those that are hypothecated and those that are not.

Jordan - Chapter 03 #7
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Asset Allocation

8. The insurance fund that covers investors' brokerage accounts with member firms when they go bankrupt is called the:
A. CDIC.
B. CIPF.
C. CRA.
D. TSX.
E. NASDAQ.

Jordan - Chapter 03 #8
Level: Easy
Section: 3.2-Investment Professionals
Topic: Canadian Investor Protection Fund

9. A brokerage account in which purchases can only be made if sufficient funds are available is called a(n) ____ account.
A. Clearing
B. Access available
C. Cash
D. Call
E. Margin

Jordan - Chapter 03 #9
Level: Easy
Section: 3.3-Types of Accounts
Topic: Cash Account

10. A brokerage account which permits the investor to buy and sell securities on credit is a(n) ___ account.
A. Cash
B. Short
C. Open
D. Margin
E. hypothecation

Jordan - Chapter 03 #10
Level: Easy
Section: 3.3-Types of Accounts
Topic: Margin Account

11. You are buying $21,000 worth of a stock. You are paying 65% in cash and borrowing the remaining 35% of the cost. The 65% is referred to as the _____, which is the portion of the value of an investment that is *not* borrowed.
A. Call money
B. Brokerage
C. Initial margin
D. Hypothecation
E. Short interest

Jordan - Chapter 03 #11
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin

12. The call money rate is the
A. Rate at which you borrow money to make a margin purchase
B. Percentage of a security's value that must be paid to a broker when you receive a marginal call
C. Percentage interest rate that must be paid on any margin shortfall until the brokerage firm receives the funds requested in a margin call
D. Rate at which the brokerage firm borrows funds that are subsequently loaned to margin customers
E. Minimum percentage rate of equity that must be maintained at all times

Jordan - Chapter 03 #12
Level: Easy
Section: 3.3-Types of Accounts
Topic: Call Money Rate

13. The minimum equity that must be kept at all times in a margin account is called the _____ that is an established value cannot fall below.
A. Initial margin
B. Initial equity position
C. Maintenance margin
D. Call requirement
E. Margin call

Jordan - Chapter 03 #13
Level: Easy
Section: 3.3-Types of Accounts
Topic: Maintenance Margin

14. A _______ is a call issued by your brokerage firm asking for more funds when your equity position in a security is less than the required amount.
A. margin call
B. hypothecation agreement
C. short sale
D. maintenance requirement
E. call money sale

Jordan - Chapter 03 #14
Level: Easy
Section: 3.3-Types of Accounts
Topic: Margin Calls

15. The return on an investment expressed on an annualized basis is called the
A. Earned return
B. Leveraged return
C. Holding-period percentage return
D. Annual percentage rate
E. Effective annual return

Jordan - Chapter 03 #15
Level: Easy
Section: 3.3-Types of Accounts
Topic: Effective Annual Return

16. ________ is the process of pledging securities as collateral against a margin loan.
A. A street name registration
B. A margin agreement
C. A brokers call agreement
D. A short sale
E. Hypothecation

Jordan - Chapter 03 #16
Level: Easy
Section: 3.3-Types of Accounts
Topic: Hypothecation

17. You own 500 shares of XYZ stock but your brokerage firm is listed as the registered owner of the securities. Under this arrangement, the securities are said to be held in:
A. brokers call registration.
B. street name registration.
C. hypothecation.
D. a margin agreement.
E. a shorts sale agreement.

Jordan - Chapter 03 #17
Level: Easy
Section: 3.3-Types of Accounts
Topic: Street Name

18. In a ________ sale, you are selling a security that you do not currently own.
A. hypothecation
B. margin
C. street name
D. short
E. brokers call

Jordan - Chapter 03 #18
Level: Easy
Section: 3.4-Types of Positions
Topic: Short Sales

19. Short interest is the number of shares of common stock
A. Held in short position
B. Held in margin account
C. Pledged as security for margin loans
D. For which sell orders are outstanding
E. For which buy orders are outstanding

Jordan - Chapter 03 #19
Level: Medium
Section: 3.4-Types of Positions
Topic: Short Interest

20. Having ________ means an asset can be sold quickly without significant price concession. The term describes the ease with which a security can be converted to cash.
A. Timing
B. Liquidity
C. Turnover
D. call money
E. short interest

Jordan - Chapter 03 #20
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Liquidity

21. ________ is buying and selling securities in anticipation of the overall direction of the capital market. Investment in the market is increased if one forecasts that this market will outperform the money market instruments such as T-bills.
A. Market timing
B. Asset allocation
C. Security selection
D. Asset management
E. Margin timing

Jordan - Chapter 03 #21
Level: Medium
Section: 3.1-The Investment Policy Statement
Topic: Market Timing

22. The distribution of an investment among various broad categories of assets is known as ___________.
A. market timing
B. asset allocation
C. security selection
D. asset management
E. margin timing

Jordan - Chapter 03 #22
Level: Medium
Section: 3.1-The Investment Policy Statement
Topic: Asset Allocation

23. ________ refers to the selection of assets within a particular class of investments. For example, you are reviewing pharmaceutical firms to determine which firm's stock to purchase.
A. Market timing
B. Asset allocation
C. Security selection
D. Asset management
E. Margin timing

Jordan - Chapter 03 #23
Level: Medium
Section: 3.1-The Investment Policy Statement
Topic: Security Selection

24. Buying a diverse group of securities without focusing on particular securities is known as _______________.
A. asset allocation
B. passive investing
C. market timing
D. active investing
E. asset management

Jordan - Chapter 03 #24
Level: Medium
Section: 3.1-The Investment Policy Statement
Topic: Passive Investing

25. The process of trying to buy specific securities that we expect to be the "winners" in the future is called _______.
A. asset allocation
B. passive investing
C. market timing
D. active investing
E. asset management

Jordan - Chapter 03 #25
Level: Medium
Section: 3.1-The Investment Policy Statement
Topic: Active Investing

26. The amount by which the interest rate on your margin account exceeds your broker's call money rate is called the
A. Margin rate
B. Short rate
C. Spread
D. Overnight rate
E. Cash rate

Jordan - Chapter 03 #26
Level: Easy
Section: 3.3-Types of Accounts
Topic: Spread

27. You recently inherited $284,000 that you wish to invest in the stock and bond markets. However, you have no investment experience and want a knowledgeable professional to make all of your investment decisions for you. You most likely need the services offered by
A. A deep-discount broker
B. A discount broker
C. A full-service broker
D. An on-line broker
E. A cyber-broker

Jordan - Chapter 03 #27
Level: Easy
Section: 3.2-Investment Professionals
Topic: Brokerage Firms

28. Why would a broker whom is engaged in churning be at a conflict of interest with their client?
A. Investing in risky securities is counter to the interest of a risk averse investor.
B. The broker is trading to generate income for themselves and not returns for the investor.
C. The broker isn't performing the due diligence necessary to provide accurate advice.
D. The broker knows that the client has signed an agency contract agreeing not to sue.
E. The broker is required to inform the client before buying securities created by their firm.

Jordan - Chapter 03 #28
Level: Medium
Section: 3.2-Investment Professionals
Topic: Churning

29. A broker makes ten trades on an account for the purpose of generating commissions. The broker may be guilty of _______.
A. Fraud
B. Hypothecation
C. Churning
D. money trading
E. call trading

Jordan - Chapter 03 #29
Level: Medium
Section: 3.2-Investment Professionals
Topic: Churning

30. You have an investment account with a brokerage firm that is CIPF insured. The account consists of $40,000 in cash, and $170,000 in securities. Which one of the following is true regarding this account?
A. Only $100,000 of the account is insured against fraud
B. The $40,000 of cash and $60,000 of the securities are insured against losses from any source
C. The entire account is guaranteed safe by the Canadian government agency issuing the CIPF insurance
D. The $40,000 in cash plus the first $100,000 in securities is guaranteed by the private insurance fund backing the CIPF insurance
E. The entire account is protected by a private fund but only for losses resulting from fraud or other failure of the brokerage firm

Jordan - Chapter 03 #30
Level: Medium
Section: 3.2-Investment Professionals
Topic: CIPF

31. You purchase a stock on margin. If the stock price drops, your return will be ____ than if you had purchased the stock with cash. If the stock price rises, your return will be ____ than if you had purchased the stock with cash.
A. lower; lower
B. lower; greater
C. greater; greater
D. greater; lower
E. Insufficient information.

Jordan - Chapter 03 #31
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin

32. Which of the following is true?
A. Advice received from your broker is guaranteed to be accurate
B. Most brokerage agreement require disputes to be settled in a count of law
C. Arbitrage is the legal process of settling a case without a jury
D. The churning of a customer's account is a recommended brokerage activity
E. Commission brokers always have a potential conflict of interest with their clients

Jordan - Chapter 03 #32
Level: Medium
Section: 3.2-Investment Professionals
Topic: Broker-Customer Relationship

33. Which of the following is not an advantage of street name registration?
A. The broker provides all tax information on a single form.
B. There is no danger of theft or other loss of the security.
C. Dividends and interest are automatically credited to the shareholder account.
D. It generally results in lower commissions charged.
E. The broker provides regular account statements.

Jordan - Chapter 03 #33
Level: Medium
Section: 3.3-Types of Accounts
Topic: Street Name Registration

34. If you are risk averse, you will:
A. only invest in low-risk investments.
B. invest in an asset based only on its return, ignoring the risk of the asset.
C. invest only in high-risk assets.
D. invest in riskier assets only if there is additional return for taking the extra risk.
E. avoid risk at all costs.

Jordan - Chapter 03 #34
Level: Medium
Section: 3.1-The Investment Policy Statement
Topic: Risk Aversion

35. The trustees inform you that your brokerage company has gone bankrupt. The CIPF insures your trading account up to ______ for losses of cash and securities.
A. $1,000,000
B. $100,000
C. $200,000
D. $500,000
E. $10,000

Jordan - Chapter 03 #35
Level: Medium
Section: 3.2-Investment Professionals
Topic: CIPF

36. You want to buy $10,000 of securities in your margin account. Your advisor has informed you that you must pay a minimum of $65,000 or 6.5% of the purchase price in cash and thereafter maintain a minimum equity position of 30%. The initial margin requirement is ___ and the maintenance margin is ____
A. 35%; 30%
B. 35%; 70%
C. 65%; 30%
D. 65%; 35%
E. 65%; 70%

Jordan - Chapter 03 #36
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Account

37. In Canada, the margin requirement for security trading is determined by the:
A. Provincial Securities Commission.
B. Investment Dealers Association (IDA).
C. Toronto Stock Exchange.
D. Bank of Canada.
E. individual brokerage firm.

Jordan - Chapter 03 #37
Level: Medium
Section: 3.3-Types of Accounts
Topic: Initial Margin

38. When you purchase a stock on margin, the money is borrowed from:
A. your broker.
B. a bank.
C. the Toronto Stock Exchange.
D. the Bank of Canada.
E. another investor.

Jordan - Chapter 03 #38
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Purchases

39. Which of the following can be a constraint for an investor?
A. Taxes.
B. Time horizon.
C. Liquidity.
D. Resources
E. All of the above.

Jordan - Chapter 03 #39
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Investor Constraints

40. The CIPF guarantees your general brokerage account up to ______ for any combination of cash and securities, and an additional ____ for each separate account.

A. $1,000,000; $100,000
B. $600,000; $200,000
C. $400,000; $100,000
D. $600,000; $100,000
E. $1,000,000; $1,000,000

Jordan - Chapter 03 #40
Level: Medium
Section: 3.2-Investment Professionals
Topic: CIPF

41. If your securities are unavailable to be returned, ____ can, at its option, compensate you for the market value of those securities as of the bankruptcy date instead of giving back the physical securities.

A. CDIC.
B. OSC.
C. CIPF.
D. CRA.
E. IDA.

Jordan - Chapter 03 #41
Level: Medium
Section: 3.2-Investment Professionals
Topic: CIPF

42. You actively research macroeconomic factors and move between stocks and bonds in an attempt to time the market. Your investment is in stock and bond index funds. You have a(n) _____ asset allocation strategy and a(n) _____ security selection strategy.

A. active; active
B. active; passive
C. passive; passive
D. passive; active
E. None of the above.

Jordan - Chapter 03 #42
Level: Medium
Section: 3.1-The Investment Policy Statement
Topic: Investment Strategy

43. Which of the following is the least compelling reason to use a professional money manager?
A. The investor has limited time available for research.
B. It may be more cost effective.
C. The investor may have limited knowledge.
D. The investor needs professional guidance.
E. Professional money managers generally generate superior returns.

Jordan - Chapter 03 #43
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Investment Management

44. You actively research market sectors to determine the sectors you feel will perform the best and then research these sectors to determine the best securities in each sector. You have a(n) _____ asset allocation strategy and a(n) _____ security selection strategy.
A. active; active
B. active; passive
C. passive; passive
D. passive; active
E. none of the above.

Jordan - Chapter 03 #44
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Investment Strategy

45. You are buying $10,000 worth of stock by putting up % 6,000 in cash and borrow the balance. This is an example of a transaction in a(n) ____ account.
A. Cash
B. Wrap
C. Short
D. Margin
E. Asset allocation

Jordan - Chapter 03 #45
Level: Easy
Section: 3.1-The Investment Policy Statement
Topic: Investment Strategy

46. If you ignore a margin call, your broker
A. Will create a loan on your behalf to cover the call amount
B. Will sell all of your securities and close your account
C. May place a short sale on your behalf to cover the amount of the call
D. Will increase both margin loan and the rate of interest on that loan
E. May sell some of your securities

Jordan - Chapter 03 #46
Level: Easy
Section: 3.3-Types of Accounts
Topic: Margin Calls

47. You invest 60 percent of your money in stocks and 40 percent of your money in bonds. Your investments are all in mutual funds. You have a(n) _____ asset allocation strategy and a(n) _____ security selection strategy.
A. active; active
B. active; passive
C. passive; passive
D. passive; active
E. none of the above.

Jordan - Chapter 03 #47
Level: Medium
Section: 3.1-The Investment Policy Statement
Topic: Investment Strategy

48. Which of the following is false concerning margin?
A. The Investment Dealers Association of Canada sets the margin requirement.
B. An initial margin of 100 percent is basically the same as a cash purchase.
C. All financial products on the exchanges can be traded with margin accounts.
D. Different margin requirements apply to different types of securities.
E. Securities purchased on margin must be left with the brokerage firm in street name.

Jordan - Chapter 03 #48
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin

49. When the initial margin requirement is lowered from 70% to 40%, this change means
A. The OSC is officially recognizing that the stock market is too tight
B. Your broker may now arrange for a 60% loan on the value of stock collateral
C. The maintenance margin will also decline by 10%
D. Credit to finance stock purchase is less available that previously
E. Stock purchases will probably not pay lower interest rates on their accounts

Jordan - Chapter 03 #49
Level: Medium
Section: 3.3-Types of Accounts
Topic: Initial Margin

50. Your investment strategy consists of holding 70 percent stocks and 30 percent bonds. You research stocks and bonds in order to find the best performers. You have a(n) _____ asset allocation strategy and a(n) _____ security selection strategy.
A. active; active
B. active; passive
C. passive; passive
D. passive; active
E. none of the above.

Jordan - Chapter 03 #50
Level: Medium
Section: 3.1-The Investment Policy Statement
Topic: Investment Strategy

51. Which of the following is false regarding short sales?
A. The maximum potential loss on a short sale is unlimited.
B. You will receive a margin call on a short sale only if the stock price rises.
C. The maximum potential dollar gain from a short sale is the stock price when shorted.
D. A short sale must be covered within one year.
E. If you short a dividend paying stock you must pay for any dividends the stock pays while you are shorting the stock.

Jordan - Chapter 03 #51
Level: Medium
Section: 3.4-Types of Positions
Topic: Short Sales

52. Shares for short sales are
A. borrowed from other brokerage firms.
B. typically shares held by the short seller's broker in street name.
C. borrowed from commercial banks.
D. both (A) and (B).
E. both (B) and (C).

Jordan - Chapter 03 #52
Level: Medium
Section: 3.4-Types of Positions
Topic: Short Sales

53. Which of the following is false regarding margin?
A. Margin accounts typically allow for unlimited margin purchases.
B. The spread you pay above the call money rate typically declines as you borrow more.
C. You must sign a hypothecation agreement to purchase stocks on margin.
D. You own 100 shares of Stock X purchased with cash and purchase 100 shares of Stock Y on margin. If you do not cover a margin call, your broker can sell shares of Stock X until you meet the maintenance margin.
E. The initial margin requirement on government bonds is lower than the initial margin requirement on stocks.

Jordan - Chapter 03 #53
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin

54. A brokerage account that provides money management, cheque writing privileges, credit cards, and margin loans is called a(n) _____ account.
A. asset management
B. discretionary
C. wrap
D. advisory
E. cash

Jordan - Chapter 03 #54
Level: Medium
Section: 3.3-Types of Accounts
Topic: Asset Management Account

55. A brokerage account in which the broker can make buy and sell decisions for the account holder without notification is called a(n) ______ account.
A. asset management
B. discretionary
C. wrap
D. advisory
E. cash

Jordan - Chapter 03 #55
Level: Easy
Section: 3.3-Types of Accounts
Topic: Advisory Account

56. A brokerage account in which the account holder is the sole person responsible for making transaction decisions is known as a(n) ______ account.
A. asset management
B. discretionary
C. wrap
D. advisory
E. mutual

Jordan - Chapter 03 #56
Level: Easy
Section: 3.3-Types of Accounts
Topic: Discretionary Account

57. In a(n) _____ account, you choose a money manager or several money managers offered by the brokerage and all commissions and costs are covered by a single fee.
A. asset management
B. discretionary
C. wrap
D. advisory
E. cash

Jordan - Chapter 03 #57
Level: Easy
Section: 3.3-Types of Accounts
Topic: Wrap Account

58. Short selling is:
A. a low risk strategy.
B. a bear market strategy.
C. non-taxable.
D. a bull market strategy.
E. a recommended strategy for investors with losses.

Jordan - Chapter 03 #58
Level: Hard
Section: 3.4-Types of Positions
Topic: Short Sales

59. The big attraction offered by margin accounts is
A. Leverage potential
B. Capital gains
C. Interest reduction
D. Less risk
E. All of the above

Jordan - Chapter 03 #59
Level: Easy
Section: 3.3-Types of Accounts
Topic: Margin Account

60. An investor places $200,000 in a discretionary account and makes all trades based on his own research. Three years later the account is worthless. To somehow recover his money, the investor can:
A. file a claim with the CIPF.
B. file a lawsuit.
C. request an arbitration hearing.
D. file a claim with the provincial securities commission.
E. none of the above.

Jordan - Chapter 03 #60
Level: Easy
Section: 3.2-Investment Professionals
Topic: CIPF

61. If you are an experienced investor who is greatly concerned about commission paid, you probably need a(n) _____ broker.
A. naive
B. discount
C. deep-discount
D. online
E. full service

Jordan - Chapter 03 #61
Level: Easy
Section: 3.2-Investment Professionals
Topic: Brokerages

62. Margin is equal to the:
A. amount borrowed by the account equity.
B. account equity divided by the value of the stock.
C. account equity divided by the amount borrowed.
D. stock value divided by the account equity.
E. account equity minus the stock value.

Jordan - Chapter 03 #62
Level: Easy
Section: 3.3-Types of Accounts
Topic: Margin

63. Hypothecation primarily protects:
A. brokers.
B. investors.
C. stock exchanges.
D. the Bank of Canada.
E. the OSC.

Jordan - Chapter 03 #63
Level: Easy
Section: 3.3-Types of Accounts
Topic: Hypothecation

64. Assume you purchase a stock on margin, and compare your returns with a cash purchase. If the stock return is positive, the effect of margin will make your return _____ than if you had purchased the stock with cash. If the stock return is negative, the effect of margin will make your return _____ than if you had purchased the stock with cash.
A. lower; lower
B. lower; higher
C. higher; higher
D. higher; lower
E. insufficient information

Jordan - Chapter 03 #64
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin

65. Which of the following is true regarding broker-client relationships?
A. A typical brokerage agreement states the client waives the right to a jury trial and, instead, is bound by arbitration.
B. Any advice received from a broker is not guaranteed.
C. A broker has a legal duty to act in the client's best interest.
D. Your protection is shared over all of the brokers if you have brokerage accounts with more than one CIPF member when bankruptcy arises.
E. All of the above.

Jordan - Chapter 03 #65
Level: Medium
Section: 3.3-Types of Accounts
Topic: Brokerage Accounts

66. An experienced investor concerning so much about commission paid probably needs a(n)
A. Naïve
B. Discount
C. Deep-discount
D. Online
E. Full service

Jordan - Chapter 03 #66
Level: Easy
Section: 3.2-Investment Professionals
Topic: Brokerages

67. The biggest advantage(s) offered by margin accounts is(are):
A. less risk involved
B. leverage potential
C. unlimited capital gains
D. non-taxable interest deduction
E. all of the above

Jordan - Chapter 03 #67
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Account

68. You have an investment portfolio comprised of multiple stocks and bonds. You make no attempt to time the market and sell securities only as you need to supplement your retirement income. You have a(n) _____ investment strategy.
A. Active
B. Passive
C. Pure liquid
D. Liquidity based
E. Tax-managed

Jordan - Chapter 03 #68
Level: Easy
Section: 3.2-Investment Professionals
Topic: Passive Strategy

69. A stock sells for $19 per share. You have $4,800 to invest and would like to purchase the stock on margin. What is the maximum number of shares you can buy if the initial margin is 70 percent?
A. 181 shares
B. 243 shares
C. 327 shares
D. 360 shares
E. 297 shares

Maximum cost = $4,800/.7 = $6,857.14
Maximum number of shares $6,857.14/$19 = 360.90 = 360 shares, rounded down to the last full share

Jordan - Chapter 03 #69
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Purchases

70. You are opening a margin account with $12,500 in cash. The initial margin is 60% and the maintenance margin is 40%. What is the maximum number of shares you can purchase of a stock that is priced at $42 a share?
A. 496
B. 550
C. 698
D. 744
E. 842

Maximum cost = $12,500/.6 = $20,833.33
Maximum number of shares = $20,833.33/$42 = 496.03 = 496 shares, rounded down to the last full share

Jordan - Chapter 03 #70
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Purchases

71. You have a margin account with a 65% initial margin and a 30% maintenance margin. What is the maximum amount you can purchase of a stock if your cash balance in the account is $14,600?
A. $19,710.00
B. $22,461.54
C. $24,090.00
D. $41,713.79
E. $48,666.67

Maximum cost = $14,600/.65 = $22,461.54

Jordan - Chapter 03 #71
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Purchases

72. You deposit $8,000 to purchase 400 shares of stock at a price of $37 per share. What is your initial margin?
A. 61%
B. 54%
C. 59%
D. 48%
E. 41%

Purchase cost = 400 × $37 = $14,800
Initial margin percentage = $8,000/$14,800 = 0.5405

Jordan - Chapter 03 #72
Level: Medium
Section: 3.3-Types of Accounts
Topic: Initial Margin

73. You currently purchased 800 shares of stock on margin at a price of $6.80 per share. Your broker required a cash payment of $5,440 plus trading costs. What was the initial margin requirement on this particular stock?
A. 70%
B. 75%
C. 80%
D. 90%
E. 100%

Purchase cost = 800 × $6.80 = $5,440
Initial margin percentage = $5,440/$5,440 = 1 = 100 percent

Jordan - Chapter 03 #73
Level: Medium
Section: 3.3-Types of Accounts
Topic: Initial Margin

74. You purchase 800 shares of stock on margin at a price of $46 per share. If the initial margin is 60 percent, what is your margin loan?
A. $16,960
B. $22,080
C. $18,310
D. $36,800
E. $14,720

Purchase cost = 800 × $46 = $36,800
With a 60% initial margin percentage, borrow $36,800 (1 - 0.6) = $14,720

Jordan - Chapter 03 #74
Level: Easy
Section: 3.3-Types of Accounts
Topic: Margin Loans

75. You purchase 300 shares of stock at a price of $36 per share on 50 percent margin. What is the most you can lose?
A. $10,800
B. $5,000
C. $3,600
D. $5,400
E. There is no limit.

Loss everything of the investment = ($36)(300) = $10,800

Jordan - Chapter 03 #75
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Purchases

76. You purchased 300 shares of ABC stock on margin when the stock was selling for $24 a share. The stock is currently selling for $28 a share. What is the minimum amount of equity you must have in this security to avoid a margin call if the maintenance margin is 40%?
A. $2,880
B. $2,910
C. $3,155
D. $3,245
E. $3,360

Minimum equity = 300 × $28 × .40 = $3,360

Jordan - Chapter 03 #76
Level: Medium
Section: 3.3-Types of Accounts
Topic: Maintenance Margin

77. You own 300 shares of a stock that you purchased on margin. The stock is currently valued at $19 a share. Your broker advised you today that your minimum equity position for this purchase is $1,710 as of today. What is the maintenance margin percentage?
A. 25%
B. 30%
C. 35%
D. 40%
E. 50%

Maintenance margin percentage = $1,710/(300 × $19) = .30 = 30 percent

Jordan - Chapter 03 #77
Level: Medium
Section: 3.3-Types of Accounts
Topic: Maintenance Margin

78. You purchased 400 shares of ABC stock for $14 a share. The stock was purchased with an initial margin of 55%. The maintenance margin is 30%. The stock is currently selling for $12 a share. What is the minimum dollar amount of equity that you must have today to avoid a margin call?
A. $1,440
B. $1,510
C. $1,155
D. $1,245
E. $1,360

Minimum equity = 400 × $12 × .30 = $1,440

Jordan - Chapter 03 #78
Level: Medium
Section: 3.3-Types of Accounts
Topic: Maintenance Margin

79. You short 300 shares of stock at a price of $36 per share on 50 percent margin. What is the most you can lose?
A. $10,800
B. $5,000
C. $3,600
D. $5,400
E. There is no limit.

Short selling is a risky business

Jordan - Chapter 03 #79
Level: Hard
Section: 3.4-Types of Positions
Topic: Short Sales

80. A stock is currently priced at $76 per share. If the initial margin is 60 percent, how many shares can you purchase if you have $15,000 to invest in the stock?
A. 164 shares
B. 366 shares
C. 268 shares
D. 328 shares
E. 183 shares

Maximum cost = $15,000/0.6 = $25,000
Maximum number of shares $25,000/$76 = 328.947 = 328 shares, rounded down to the last full share

Jordan - Chapter 03 #80
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Purchases

81. You purchased 700 shares of a stock for $21 a share. Today, the stock is selling for $16 a share. The initial margin was 70% and the maintenance margin is 30%. You had to pay ____ in cash to purchase the stock and must have at least ____ in equity today.
A. $10,290; $3,360
B. $7,840; $10,290
C. $7,840; $3,360
D. $3,360; $7,840
E. $4,410; $3,360

Initial cash requirement = 700 × $21 × .70 = $10,290
Current equity requirement = 700 × $16 × .30 = $3,360

Jordan - Chapter 03 #81
Level: Medium
Section: 3.3-Types of Accounts
Topic: Maintenance Margin

82. You purchased 200 shares of a stock for $28 a share and sold them 4 months later for $30 a share. The initial margin was 60%. You received no dividend income. Your holding period return was _____ while it would have been ____ if not used margin for the purchase. Ignore interest and trading costs.
A. 10.29%; 6.99%
B. 10.95%; 9.06%
C. 11.90%; 7.14%
D. 11.90%; 17.87%
E. 10.45%; 11.90%

Holding period percentage return without margin = [200 × ($30 - $28)]/(200 × $28) = $400/$5,600 = .07143 = 7.14 percent

Holding period percentage return with margin = [200 × ($30 - $28)]/(200 × $28 × .60) = $400/$3,360 = .119048 = 11.90 percent

Jordan - Chapter 03 #82
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin and Leverage

83. You purchased 100 shares of a stock for $22 a share and sold them 7 months later for $26 a share. The initial margin was 70% and the maintenance margin was 35%. You received no dividend income. Your holding period return was _____ while it would have been ____ if not used margin for the purchase. Ignore interest and trading costs.
A. 10.29%; 6.99%
B. 18.18%; 25.97%
C. 25.97%; 18.18%
D. 11.90%; 17.87%
E. 10.45%; 11.90%

Your holding period percentage return without margin = ($26 - $22)/$22 = .18182 = 18.18 percent
Your holding period percentage return with margin = ($26 - $22)/($22 × .70) = $4/$15.40 = .25974 = 25.97 percent

Jordan - Chapter 03 #83
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin and Leverage

84. You have $25,000 to invest and want to purchase stock on margin. If the stock currently sells for $110 per share, and the initial margin is 60 percent, how many shares can you purchase?
A. 378 shares
B. 346 shares
C. 294 shares
D. 227 shares
E. 362 shares

Maximum amount available for purchase = $25,000/.60 = $41,666.67
Shares purchased = $41,666.67/$110 = 378.78. Round it down to 378.

Jordan - Chapter 03 #84
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Purchases

85. You deposit $10,000 into an account and purchase 600 shares of stock at a price of $29 per share on margin. What is your initial margin?
A. 46%
B. 65%
C. 57%
D. 50%
E. 43%

Total cost = ($29)(600) = $17,400. Initial margin = $10,000/$17,400 = 0.5747

Jordan - Chapter 03 #85
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Purchases

86. You buy 800 shares of stock at a price of $57 per share on 70 percent margin. How much money did you borrow?
A. $45,600
B. $18,300
C. $21,200
D. $31,920
E. $13,680

[($57)(800)](1 - 0.7) = $13,680

Jordan - Chapter 03 #86
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Purchases

87. You purchase 1,000 shares of stock at a price of \$56 with an initial margin or 50 percent. If you sell the stock when the price is \$63 per share, what was your holding period return? Ignore transaction costs and margin interest.
A. 22.50%
B. 16.25%
C. 12.50%
D. 18.75%
E. 25.00%

Equity investment = (\$56)(1,000)(0.50) = \$28,000. Profit = (\$63 - \$56)(1,000) = \$7,000. HPR = \$7,000/\$28,000 = 0.25

Jordan - Chapter 03 #87
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Returns

88. You obtain a margin loan of \$18,000 to purchase stocks. The effective interest rate on the loan is 7.8 percent. If you repay the loan in 3 months, how much interest will you pay?
A. \$275.00
B. \$243.13
C. \$341.18
D. \$326.34
E. \$376.54

Margin interest = $[(1 + .078)^{3/12} - 1] \times \$18,000 = \$341.177 = \$341.18$

Jordan - Chapter 03 #88
Level: Hard
Section: 3.3-Types of Accounts
Topic: Margin Interest

89. A margin loan for \$20,000 is charged an effective interest rate of 8.5 percent. If the loan is repaid in 9 months, how much interest is charged?
A. \$1,275.00
B. \$1,243.13
C. \$1,261.91
D. \$1,226.34
E. \$1,276.54

Margin interest = $[(1 + .085)^{912} - 1] \times \$20,000 = \$1,261.911$

Jordan - Chapter 03 #89
Level: Hard
Section: 3.3-Types of Accounts
Topic: Margin Interest

90. You purchase 200 shares of stock at a price of $42 per share on a 60 percent initial margin. If you are charged an effective rate of 6.9 percent on the margin loan, how much interest will you be charged if you repay the loan in 6 months?
A. $109.18
B. $113.99
C. $115.92
D. $171.47
E. $173.88

Margin interest = $[(1 + .069)^{6/12} - 1] \times [200 \times \$42 \times (1 - .60)] = .033924562 \times \$3,360 = \$113.987 = \$113.99$

Jordan - Chapter 03 #90
Level: Hard
Section: 3.3-Types of Accounts
Topic: Margin Interest

91. You purchase 700 shares of stock at a price of $98 per share on a 50 percent initial margin. If you are charged an effective rate of 7.3 percent on the margin loan, how much interest will you be charged if you repay the loan in 4 months?
A. $834.63
B. $829.64
C. $804.62
D. $814.30
E. $802.14

Margin interest = $[(1 + .073)^{4/12} - 1] \times [700 \times \$98 \times (1 - .50)] = .02374 \times \$34,300 = = \$814.30$

Jordan - Chapter 03 #91
Level: Hard
Section: 3.3-Types of Accounts
Topic: Margin Interest

92. Eight hundred shares of stock were purchased at a price of $82 per share and an initial margin of 60 percent. If the stock was sold when the price was $89, what was the investment return for the period you own the stocks? Ignore transaction costs and margin interest.
A. 9.78%
B. 14.23%
C. 8.54%
D. 16.21%
E. 12.87%

($89 - $82)(800)/[($82)(800)(0.6)] = $5,600/$39,360 = 0.142276

Jordan - Chapter 03 #92
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Returns

93. The call money rate is 6.5 percent, and you pay a 1.3 percent spread above that. You buy 1,500 shares at a price of $56, and an initial margin of 50 percent. You close the position one year later at a stock price of $61. What was your return?
A. 8.93%
B. 12.34%
C. 11.83%
D. 9.65%
E. 10.06%

Account equity = ($56)(1,500)(0.5) = $42,000. Profit = ($61 - $56) (1,500) = $7,500. Interest cost = ($56)(1,500)(1 - 0.5)(0.065 + 0.013) = $3,276. HPR = ($7,500 - $3,276)/$42,000 = $4,224/$42,000 = 0.100571

Jordan - Chapter 03 #93
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Returns With Interest

94. You sold a stock that returned 5.6% over a 3-month period. What was your annualized rate of return?
A. 21.67%
B. 22.40%
C. 23.49%
D. 24.35%
E. 25.105%

Annualized rate of return = $(1 + .056)^{12/3}$ - 1 = .24353 = 24.35 percent

Jordan - Chapter 03 #94
Level: Medium
Section: 3.3-Types of Accounts
Topic: Annualized Return

95. You paid $600 interest on a 9-month $15,000 margin loan. What was the effective interest rate on the loan?
A. 6.67%
B. 5.91%
C. 5.49%
D. 4.35%
E. 5.10%

Holding period percentage return = $660/$15,000 = .044
Effective interest rate = $(1 + .044)^{12/9}$ - 1 = .05909 = 5.91 percent

Jordan - Chapter 03 #95
Level: Hard
Section: 3.3-Types of Accounts
Topic: Annualized Return

96. You purchase 900 shares of stock at a price of $45 and an initial margin of 60 percent. The call money rate is 6.3 percent and you pay a spread of 2.1 percent. One year later, you close your position at a stock price of $53. If the stock paid an annual dividend of $0.78 per share, what was your return?
A. 29.01%
B. 26.92%
C. 30.62%
D. 27.89%
E. 24.03%

Account equity = ($45)(900)(0.6) = $24,300. Profit = ($53 +$0.78 - $45) (900) = $7,902. Annual Interest cost = ($45)(900)(1 - 0.6)(0.063 + 0.021) = $1,360.8 HPR = ($7,902 - $1,360.8)/$24,300 = $6,541.2/$24,300 = 0.269185

Jordan - Chapter 03 #96
Level: Hard
Section: 3.3-Types of Accounts
Topic: Margin Returns With Interest

97. You purchase 800 shares of stock at a price of $102 and an initial margin of 50 percent. The call money rate is 5.2 percent and you pay a spread of 1.7 percent. A year later, you close your position at a stock price of $94. With an annual dividend of $1.80 per share, what was your return?
A. - 14.32%
B. - 22.59%
C. - 19.06%
D. - 6.08%
E. - 12.64%

Equity = ($102)(800)(0.5) = $40,800. Gain = ($94 +$1.8 - $102) (800) = - $4,960. Interest = ($102)(800)(1 - 0.5)(0.052 + 0.017) = $2,815.20. HPR = (- $4,960 - $2,815.2)/$40,800 = - 0.1905686

Jordan - Chapter 03 #97
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Returns With Interest

98. You owned a stock for 2 months and earned an annualized return of 13.28%. What was the rate of return for the 2-month period?
A. 2.10%
B. 1.12%
C. 2.59%
D. 1.71%
E. 2.87%

Holding period return = $(1 + x)^{12/2} - 1 = .1328$; $x = 1.1328^{1/6} - 1$; .0210 = 2.10 percent

Jordan - Chapter 03 #98
Level: Hard
Section: 3.3-Types of Accounts
Topic: Annualized Return

99. You short sell 400 shares of stock at $51 a share. The initial margin of 50 percent and the maintenance margin is 25%. What is the amount of your total liability for this transaction as initially shown on your account balance sheet?
A. $8,500
B. $19,000
C. $17,000
D. $9,500
E. $20,400.

Liability = 400 × $51 = $20,400

Jordan - Chapter 03 #99
Level: Hard
Section: 3.4-Types of Positions
Topic: Short Sales

100. You short sell 500 shares of stock at $24 a share. One month later, you covered the short at a price of $25. What was your total dollar return on this investment? Ignore margin interest, trading costs and taxes.
A. - $500
B. - $250
C. - $100
D. $500
E. $250

Total dollar return = 500 × ($24 - $25) = - $500

Jordan - Chapter 03 #100
Level: Medium
Section: 3.4-Types of Positions
Topic: Short Sales

101. Today, you short sell 200 shares of stock at $34 a share. The initial margin is 60% and the maintenance margin is 30%. Which of the following is correct concerning your account balance sheet for this transaction? Ignore margin interest, trading costs and taxes.
A. You have an asset of $4,080 from the proceeds
B. You have a liability from the short position of $2,720
C. Your account equity is $4,080
D. Your initial margin is $2,720
E. Your total assets are $6,800

Sale proceeds (an asset) = 200 × $34 = $6,800
Initial margin deposit (an asset) = 200 × $34 × .60 = $4,080
Short position (a liability) = 200 × $34 = $6,800
Account equity = $6,800 + $4,080 - $6,800 = $4,080

Jordan - Chapter 03 #101
Level: Hard
Section: 3.4-Types of Positions
Topic: Short Sales

102. You short sell 800 shares of stock at $13 a share. The initial margin is 50% and the maintenance margin is 25%. The stock is currently selling for $11 a share. What is the amount of your account equity now?
A. $1,600
B. $5,200
C. $6,800
D. $8,800
E. $10,400

Account equity = (800 × $13) + (800 × $13 × .50) - (800 × $11) = $10,400 + $5,200 - $8,800 = $6,800

Jordan - Chapter 03 #102
Level: Hard
Section: 3.4-Types of Positions
Topic: Short Sales

103. You short sold 200 shares of ABC stock at $56 a share at initial margin of 50%. What is the highest the stock price can go before you receive a margin call if the maintenance margin is 35%?
A. $60.18
B. $62.22
C. $65.45
D. $68.00
E. $70.89

P* = {[(200 × $56) + (200 × $56 × .50)]/200}/(1 + .35) = [($11,200 + $5,600)/200]/1.35 = $62.22

Jordan - Chapter 03 #103
Level: Hard
Section: 3.3-Types of Accounts
Topic: Margin Calls on Short Sales

104. The stock of Clapton Industries is selling at a price of \$96 per share. You short 600 shares at an initial margin of 50 percent. If the maintenance margin is 30 percent, at what price will you receive a margin call?
A. \$111.96
B. \$116.19
C. \$114.32
D. \$110.77
E. \$115.09

Amount borrowed = (\$96)(600)(1 - 0.5) = \$28,800 = initial deposit. Value of the stock = (P)(600) = liability. Proceeds from short sales = (\$96)(600) = \$57,600. Account equity = \$57,600 + \$28,800 - 600P. Solve 0.3 = (\$86,400 - 600P)/600P. It follows 180P = \$86,400 - 600P yielding 780P = \$86,400. Therefore, P = \$110.7692

Jordan - Chapter 03 #104
Level: Hard
Section: 3.4-Types of Positions
Topic: Margin Calls on Short Sales

105. You short 300 shares of stock at a price of \$37 with a 60 percent initial margin. If the maintenance margin is 30 percent, at what price will you receive a margin call?
A. \$45.54
B. \$46.67
C. \$58.29
D. \$53.78
E. \$55.06

$P^* = \{[(300 \times \$37) + (300 \times \$37 \times .60)]/300\}/(1 + .30) = [(\$11,100 + \$6,660)/300]/1.30 = \$45.54$

Jordan - Chapter 03 #105
Level: Hard
Section: 3.4-Types of Positions
Topic: Margin Calls on Short Sales

106. 1,200 shares of a stock are purchased at a price of \$54 on a 70 percent initial margin. If the maintenance margin is 35 percent, at what stock price will a margin call be issued?
A. \$25.47
B. \$24.92
C. \$28.32
D. \$18.65
E. \$22.23

$P^* = \{[1,200 \times \$54 \times (1 - .70)]/1,200\}/(1 - .35) = \$16.20/.65 = \$24.92$

Jordan - Chapter 03 #106
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Calls

107. You purchase 300 shares of stock on a 60 percent initial margin. If the stock price when purchased was \$29 and the maintenance margin is 30 percent, at what stock price will you receive a margin call?
A. \$12.14
B. \$17.05
C. \$14.79
D. \$13.51
E. \$16.57

$P^* = \{[300 \times \$29 \times (1 - .60)]/300\}/(1 - .30) = \$11.60/.70 = \$16.57$

Jordan - Chapter 03 #107
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Calls

108. You purchase 200 shares of stock at a price of \$22 per share. If the initial margin was 60 percent and the maintenance margin is 25 percent, at what stock price will you receive a margin call?
A. \$11.00
B. \$12.63
C. \$13.96
D. \$10.07
E. \$11.73

$P^* = \{[200 \times \$22 \times (1 - .60)]/200\}/(1 - .25) = \$8.80/.75 = \$11.73$

Jordan - Chapter 03 #108
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Calls

109. Two thousand shares of stock are shorted at a price of \$26 and an initial margin of 55 percent. If the maintenance margin is 35 percent, what is the critical stock price?
A. \$30.93
B. \$31.67
C. \$30.12
D. \$29.85
E. \$32.26

$P^* = \{[(2{,}000 \times \$26) + (2{,}000 \times \$26 \times .55)]/2{,}000\}/(1 + .35) = [(\$52{,}000 + \$28{,}600)/2{,}000]/1.35 = \$29.8518$

Jordan - Chapter 03 #109
Level: Hard
Section: 3.4-Types of Positions
Topic: Margin Calls on Short Sales

110. You purchase 500 shares of stock at a price of $68 on an initial margin of 50 percent. If the stock price rises to $74, what is your margin now?
A. 55.91%
B. 56.27%
C. 54.05%
D. 59.32%
E. 56.32%

Market value = ($74)(500) = $37,000. Loan = ($68)(500)(1 - 0.5) = $17,000. Equity = $37,000 - $17,000 = $20,000. Margin equity = $20,000/$37,000 = 0.5405

Jordan - Chapter 03 #110
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Equity

111. You purchase 1,100 shares of stock at a price of $36 on an initial margin of 60 percent. If the stock price falls to $31, what is your margin now?
A. 53.55%
B. 51.07%
C. 48.32%
D. 56.21%
E. 52.06%

Margin equity = [($31)(1,100) - ($36)(1,100)(1 - 0.6)]/($31)(1,100) = ($34,100 - $15,840)/$34,100 = $18,260/$34,100 = 0.53548

Jordan - Chapter 03 #111
Level: Medium
Section: 3.3-Types of Accounts
Topic: Margin Equity

112. You sold short 100 shares at $50 a share. The initial margin was 60 percent. What is the maintenance margin if a margin call is made at a stock price of $60?
A. 23.64%
B. 7.88%
C. 25.82%
D. 18.64%
E. 33.33%

Solve $60 = {[($50)(100)(1 + 0.6)]/100}/(1 + X). It follows 60 + 60X = 80 yielding X = 0.3333

Jordan - Chapter 03 #112
Level: Hard
Section: 3.3-Types of Accounts
Topic: Maintenance Margin

113. You short sell 500 shares of stock at an initial margin of 50 percent. What is the most you can make on this transaction if the short sale occurs at a price of $38 per share?
A. $8,500
B. $19,000
C. $17,000
D. $9,500
E. There is no limit.

Buy back the shares at zero cost leaving you the maximum profit of ($38)(500) = $19,000 from the short sales proceed.

Jordan - Chapter 03 #113
Level: Medium
Section: 3.4-Types of Positions
Topic: Short Sales

114. List the three types of brokers, and discuss the advantages and disadvantages of each.

Full service brokers-provide investment advice, but also charge higher commissions.
Discount brokers-provide limited investment advice at a lower commission than full-service brokers.
Deep-discount brokers-provide no investment advice, but low commissions.

Jordan - Chapter 03 #114
Section: 3.2-Investment Professionals

115. What is a margin purchase? Why would you buy on margin? What are the key benefits and risks?

A margin purchase is a stock purchase made in part with borrowed money. Margin is a form of financial leverage in that in magnifies the potential gains for an investor. The main risk is that it will also magnify potential losses.

Jordan - Chapter 03 #115
Section: 3.3-Types of Accounts

116. What is a short sale? Why do investors short a stock?

Short sales are borrowing stock now and selling it, planning to repurchase the stock at a later date to replace the stock borrowed. Investors short a stock when they think that the price will drop since their return is positive when they replace the stock at a lower price. A major risk of a short sale is that the potential loss is infinite.

Jordan - Chapter 03 #116
Section: 3.4-Types of Positions

117. List and explain the five most important investor constraints.

Resources-how much capital the investor has.
Horizon-how long the investment will be held until sold.
Liquidity-how quickly the asset can be sold and how easily it can be converted to cash at or near market value.
Taxes-what marginal tax rate is the investor paying.
Special circumstances-does the investor have any special or unique circumstances such as the number of dependents, social and political views, corporate insiders, etc.

Jordan - Chapter 03 #117
Section: 3.1-The Investment Policy Statement

118. Why are investors and their brokers sometimes on different sides of the fence when it comes to trading decisions?

Investors are generally looking for long-term returns and must consider the overall cost of trading. They may often do well with a buy-and-hold strategy. Brokers, on the other hand, make their living by commissions that mean they have a vested interest in having customers trade more often.

Jordan - Chapter 03 #118
Section: 3.2-Investment Professionals

119. Why would a brokerage firm have different margin requirements on different securities?

The margin requirement can vary based on the type, the price and the volatility of the security.

Jordan - Chapter 03 #119
Section: 3.2-Investment Professionals

c3 Summary

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