EXAM: Financial markets and institutions
University of Trieste - 25.01.2018

Student: ____ Id. number: ____________________

EX.: 1

Choose unambiguously the only right answer for each question. Correct answers are worth 1 point, blank ones 0 and a -1 penalty is given every two mistakes. This exam is failed if the final score is lower than 10 points, but the grade will not be affected by this result.

1 If nominal interest rates increase because of real interest rates, the result is:
[a] a weaker currency
[b] a stronger currency
[c] no changes in currency rates

2 If a stock has a lower price/earnings ratio than another one of a direct competitor:
[a] it is perceived as growing less or as more risky
[b] it is perceived as growing more but with more risks
[c] it is perceived as growing more or as less risks

3 If you borrow money and inflation grows:
[a] this is bad news
[b] this is neither good nor bad news
[c] this is good news

4 By buying a credit-default-swap (CDS) it is possible to:
[a] decrease the credit risk of an issuer
[b] decrease the credit risk of an investment bank
[c] increase the credit risk borne by an investor

5 By securitizing part of its assets, a financial institution obtains:
[a] more profitability
[b] more liquidity
[c] more risks

6 An initial-public-offering (IPO) is:
[a] a typical investing option for banks
[b] a typical way to launch a startup
[c] a typical exit option for venture capitalists

7 If you own a stock and purchased a put option on the same stock:
[a] the risk of the portfolio is unchanged
[b] you increased the risk of your portfolio
[c] you decreased the risk of your portfolio

8 A mutual fund invested 100 in assets that, after one year, are worth 120. If it borrowed 10:
[a] the NAV is unchanged
[b] the NAV decreased
[c] the NAV increased

9 One of the following is a typical asset of a central bank:
[a] reserves
[b] currency in circulation
[c] loans

10 A central bank's open market transaction is typically:
[a] a change in reserve requirements
[b] a purchase or selling of bonds
[c] a loan

11 A general rule of thumb of financial markets is the following:
[a] there are more bonds than bank loans outstanding
[b] the shorter the maturity in a market, the larger its trading volumes
[c] there are more stocks than bonds outstanding

12 The strong efficient market hypothesis predicts that:
[a] outperformers are those with private information
[b] outperformers are those with public information
[c] it is unlikely to outperform frequently the market

13 A country able to increase its productivity, typically obtains:
[a] a stronger currency
[b] a weaker currency
[c] no changes in currency rates

14 A typical example of a conflict of interest is:
[a] an investment bank that does market research and advises its customers' investments
[b] an investment bank that places newly issued bonds and advises its customers' investments
[c] an investment bank that grows in size becoming too-big-to-fail

15 Other things being equal, a debt that includes more covenants:
[a] bears lower moral hazard
[b] bears greater moral hazard
[c] covenants do not influence moral hazard

16 A coupon bond and a zero-coupon have the same duration. Which one is due later?
[a] the zero-coupon
[b] both are due at the same time
[c] the coupon bond

17 A bond that is traded over-the-counter is probably exposed, compared to a listed one, to:
[a] more interest-rate risk
[b] more credit risk
[c] more liquidity risk

18 Compared to a regular bond, a convertible one (with other things being equal):
[a] has a greater credit risk
[b] has a greater interest rate
[c] has a lower interest rate

19 You live in the Euro area. You borrow euros and invest in dollars. If, at maturity, the euro appreciates over the dollar:
[a] it depends on the FED and ECB reference rates
[b] you lose more or gain less
[c] you lose less or gain more

20 Obtaining coupons on bonds reduces interest-rate risk, but exposes to:
[a] credit risk
[b] liquidity risk
[c] reinvestment risk

If you have important matters to attend to (other exams, work-related issues, family care, etc.), let me know here the most suitable time for your oral examination, so I can schedule our agenda properly.

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