

bond pays 8% coupons semiannually. The bond is priced at 118.20 to yield an annual nominal rate of 6% convertible semiannually. Calculate the redemption value of the bond. (A) 97 (B) 100 (C) 103 (D) 106 (E) 109

November 2005 8 Course FM5. Alex is an investment analyst for a large fund management firm. He specializes in finding risk-free arbitrage opportunities in the stock market. His strategy consists of selling a specific number of call options for each share of stock selected in the fund. Which of the following best describes the technique used by Alex to achieve his goal? (A) Black Scholes option pricing model (B) Capital Asset Pricing Model (C) Full immunization (D) Short sales (E) Hedge ratio

November 2005 9 Course FM6. Consider a yield curve defined by the following equation: $2 + 0.09 - 0.002k + 0.001k^2 = i_k$, where i_k is the annual effective rate of return for zero coupon bonds with maturity of k years. Let j be the one-year effective rate during year 5 that is implied by this yield curve. Calculate j . (A) 4.7% (B) 5.8% (C) 6.6% (D) 7.5% (E) 8.2%

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