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QUESTION 1

When using a probability tree approach, we discount the various cash flows to their present value at:

- A. The firm's weighted-average cost of capital
- B. The project's required rate of return
- C. The risk-free rate
- D. The after-tax cost of the firm's long-term debt

Correct Answer: C

QUESTION 2

The actual market value of a right will differ from its theoretical value for all of the following reasons Except for:

- A. The size of the firm's marginal tax rate
- B. The amount of transactions costs incurred
- C. Investor speculation
- D. The irregular exercise and sale of rights over the subscription period

Correct Answer: A

QUESTION 3

The accumulation phase in annuities can last from as long as:

- A. One day to five years
- B. One day to decades
- C. Ten days to ten years
- D. All of these

Correct Answer: B

QUESTION 4

Consider someone who takes home \$2500 a month. Using a 20% ratio, he/she should have monthly consumer credit payments of no more than \$500 i.e.,

$\$2500 \times 0.20 = \500 . This is the _____ amount of her monthly disposable income that she should need to pay off both personal loans and other forms of consumer credit.

- A. Maximum
- B. Minimum
- C. Same
- D. Actual

Correct Answer: A

QUESTION 5

What method assumes that an entity's historical experience relating to the timeliness of settlement will be predictive of future results?

- A. Paid loss projection
- B. Unpaid loss projection
- C. Incurred loss projection
- D. Loss ratio projection

Correct Answer: A

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