

Fundamentals of Investments, 8e (Jordan)

Chapter 2 The Investment Process

1) 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.

2) 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.

3) Jack is researching chemical companies in an effort to determine which company's stock he should purchase. This process is known as:

- A) market timing.
- B) purchase shorting.
- C) marketing research.
- D) asset allocation.
- E) security selection.

4) A Roth IRA:

- A) is a form of "tax-deferred" account.
- B) funds are taxed at the time you begin withdrawals.
- C) are well-suited to investors nearing retirement.
- D) invests after-tax dollars.
- E) is the type of account offered by most employers.

5) A brokerage account in which purchases can be made using credit is referred to as which type of account?

- A) clearing
- B) funds available
- C) cash
- D) call
- E) margin

6) Kay just purchased \$5,000 worth of stock. She paid \$3,000 in cash and borrowed \$2,000. In this example, the term margin refers to:

- A) the total amount of the purchase.
- B) the percentage of the purchase that was paid in cash.
- C) the percentage of the purchase paid with borrowed funds.
- D) any future increase in the value of the stock.
- E) any future decrease in the value of the stock.

- 7) Which one of the following best describes the term "initial margin"?
- A) Amount of money that must be deposited to open a margin account with a broker
 - B) Amount of cash that must be paid to purchase a security on margin
 - C) Amount of cash that must be paid when a broker issues a margin call
 - D) Amount of money borrowed when a security is purchased
 - E) Total loan amount offered to a customer by a brokerage firm to cover future purchases
- 8) The minimum equity that must be maintained at all times in a margin account is called the:
- A) initial margin.
 - B) initial equity position.
 - C) maintenance margin.
 - D) call requirement.
 - E) margin call.
- 9) When your equity position in a security is less than the required amount, your brokerage firm will issue a:
- A) margin call.
 - B) margin certificate.
 - C) cash certificate.
 - D) limit order.
 - E) leverage call.
- 10) Sam purchased 500 shares of Microsoft stock which he has pledged to his broker as collateral for the loan in his margin account. This process of pledging securities is called:
- A) margin calling.
 - B) hypothecation.
 - C) leveraging.
 - D) maintaining the margin.
 - E) street securitization.
- 11) Staci owns 1,000 shares of stock in a margin account. Those shares are most likely held in:
- A) transit.
 - B) her registered name.
 - C) street name.
 - D) a wrap account.
 - E) a discretionary account.
- 12) This morning, Josh sold 800 shares of stock that he did not own. This sale is referred to as a:
- A) margin sale.
 - B) long position.
 - C) wrap trade.
 - D) hypothecated sale.
 - E) short sale.

- 13) The amount of common stock held in short positions is referred to as the short:
- A) margin.
 - B) shares.
 - C) proceeds.
 - D) sale.
 - E) interest.
- 14) A company that owns income-producing real estate such as an apartment complex or a retail shopping center is called a(n):
- A) REIT.
 - B) SIPC.
 - C) REEF.
 - D) EAR.
 - E) SPIC.
- 15) An investor who has a resource constraint:
- A) pays no income taxes.
 - B) has insufficient funds to purchase a security.
 - C) has a relatively high marginal tax rate.
 - D) has only one source of income.
 - E) will only invest in socially acceptable securities.
- 16) To be considered liquid, a security must:
- A) be held in a cash account.
 - B) pay dividends.
 - C) be able to be sold on short notice.
 - D) be held for less than one year.
 - E) be able to be sold quickly with little, if any, price concession.
- 17) Walter is trying to decide whether he wants to purchase shares in General Motors, Ford, or Honda, all of which are auto manufacturers. Walter is making a(n) _____ decision.
- A) security selection
 - B) tax-advantaged
 - C) risk aversion
 - D) active strategy
 - E) asset allocation
- 18) Brooke has decided to invest 55 percent of her money in large company stocks, 40 percent in small company stocks, and 5 percent in cash. This is a(n) _____ decision.
- A) market timing
 - B) security selection
 - C) tax-advantaged
 - D) active strategy
 - E) asset allocation

19) Kay plans to retire in two years and wishes to liquidate her account at that time. Kay has a _____ constraint.

- A) resource
- B) horizon
- C) liquidity
- D) tax
- E) special circumstances

20) The SIPC:

- A) guarantees investors against any loss related to an investment account held at a brokerage firm.
- B) guarantees cash balances held in brokerage accounts up to \$500,000.
- C) is an agency of the federal government.
- D) protects private brokerage firms from bankruptcy.
- E) protects investors from missing assets when a brokerage firm closes.

21) The determination of which individual stocks to purchase within a particular asset class is referred to as:

- A) security selection.
- B) asset allocation.
- C) security analysis.
- D) market timing.
- E) market selection.

22) An investor who follows a fully active strategy will:

- A) move money between asset classes as well as try to select the best performers in each class.
- B) move money between asset classes but will not be concerned about which individual securities are owned.
- C) focus on picking individual stocks only.
- D) maintain a relatively constant mix of asset classes while continually buying and selling individual securities.
- E) concentrate solely on asset allocation to maximize potential returns.

23) Which one of the following decisions falls under the category of asset allocation?

- A) Purchasing Ford stock rather than General Motors stock
- B) Determining that thirty percent of a portfolio should be invested in bonds
- C) Adopting a passive investment strategy
- D) Deciding to actively analyse individual securities
- E) Deciding to use an online broker

24) Tom recently inherited a large sum of money that he wants to invest in the stock market. Since he has no investment experience, he has decided that he would like to work with a professional who can explain the market to him and also manage his funds for him. Ted most likely needs the services offered by a(n):

- A) deep-discount broker.
- B) discount broker.
- C) full-service broker.
- D) online broker.
- E) cyber broker.

25) Which one of the following statements is correct?

- A) Most brokerage agreements require disputes be settled in a court of law.
- B) Arbitration is a formal legal process for settling disputes related to brokerage accounts.
- C) Churning is the preferred method of providing deep-discount brokerage services.
- D) Discount brokers only provide order execution services.
- E) Full service brokers frequently provide financial planning services to clients.

26) Martin has an investment account with William, who is a broker with City Brokerage. Martin believes that William has mishandled his account by churning it. If he files a complaint against William seeking compensation, the case will most likely be decided by:

- A) the office manager of City Brokerage.
- B) a civil suit judge.
- C) a jury.
- D) an arbitration panel.
- E) the SEC Hearing Board.

27) You currently have \$5,000 in cash in your brokerage account. You decide to spend \$8,000 to purchase shares of stock and borrow \$3,000 from your broker to do so. Which type of brokerage account do you have?

- A) Cash
- B) Wrap
- C) Margin
- D) Short
- E) Asset allocation

28) Which one of the following statements is correct?

- A) The call money rate is the rate of interest brokerage firms charge on margin loans.
- B) The spread is the fee a deep-discount broker charges to execute a trade.
- C) The percentage of a purchase paid for with borrowed funds is referred to as the margin.
- D) A margin loan is treated as an asset on an account balance sheet.
- E) Margin is equal to account equity divided by the value of the securities owned.

29) Staci just used \$5,000 of cash plus a \$2,500 margin loan to purchase \$7,500 worth of stock. This is the only transaction in her brokerage account. According to her account balance sheet, she now has account equity of:

- A) \$2,500.
- B) \$5,000.
- C) \$7,500.
- D) \$12,500.
- E) \$15,000.

30) Ann just purchased \$10,000 of stock. She paid \$8,000 in cash and borrowed the remaining \$2,000 needed to pay for this purchase. If you constructed a balance sheet reflecting this transaction, the total assets would be:

- A) \$3,000.
- B) \$9,000.
- C) \$10,000.
- D) \$15,000.
- E) \$21,000.

31) Anita wants to buy \$10,000 of securities in her margin account. Her advisor has informed her that she must pay a minimum of \$7,000 in cash and maintain a minimum equity position of 30 percent. The initial margin requirement is _____ percent and the maintenance margin is _____ percent.

- A) 30; 30
- B) 30; 70
- C) 70; 30
- D) 70; 50
- E) 70; 70

32) The absolute minimum initial margin requirement is set by the:

- A) individual investor.
- B) brokerage firm.
- C) Federal Reserve.
- D) Security Investors Protection Corporation.
- E) Securities and Exchange Commission.

33) You open a margin account with a local broker and purchase shares of stock. The house maintenance margin requirement for your account is set by:

- A) your broker.
- B) the stock exchange.
- C) the SEC.
- D) the SIPC.
- E) the Federal Reserve.

- 34) If you opt to purchase shares of stock on margin rather than with cash, you will:
- A) decrease your maximum potential rate of return.
 - B) increase your maximum potential rate of return.
 - C) guarantee yourself a profit.
 - D) eliminate any potential profit.
 - E) have equal rates of return regardless of how the purchase is made.
- 35) What is the purpose of a margin call?
- A) to inform you that your margin loan is due and payable
 - B) to demand funds to increase your margin position
 - C) to let you know the amount of funds that are now available for you to borrow
 - D) to advise you that the interest rate on your loan has changed
 - E) to remind you of the upcoming monthly payment due on your margin loan
- 36) If you ignore a margin call, your broker:
- A) will seize all the assets in your account.
 - B) will close your account.
 - C) may place a short sale on your behalf to cover the amount of the call.
 - D) may sell some of your securities to repay the margin loan.
 - E) will increase both your margin loan and the rate of interest on that loan.
- 37) Lauren Mitchell has a margin account with a local brokerage firm, RL Brokers. She recently purchased 200 shares of Abbot Industries common stock that trades on the New York Stock Exchange (NYSE). These shares are held in street name and are registered under the name of:
- A) Lauren Mitchell.
 - B) RL Brokers.
 - C) Abbot Industries.
 - D) the New York Stock Exchange.
 - E) the Securities and Exchange Commission.
- 38) Which one of the following is generally true concerning securities held in street name?
- A) The securities are registered under your mailing address rather than your name.
 - B) There is a greater likelihood the security may be stolen.
 - C) All dividend checks are mailed to your street address.
 - D) The annual stock report is mailed directly to your street address.
 - E) The brokerage firm is the owner of record.
- 39) Sarah has a brokerage account with Jeff, who is a money manager with Downtown Brokers. Sarah pays an all-inclusive annual fee to the firm and Jeff manages her funds. She pays no trading costs or commissions. Which one of the following best describes this type of account?
- A) wrap
 - B) cash
 - C) margin
 - D) mutual
 - E) advisory

40) A discretionary account:

- A) authorizes a broker to trade securities on your behalf.
- B) charges an annual fee to cover all trading and management services.
- C) is the term applied to brokerage accounts with check-writing and credit card services.
- D) is the same as a wrap account.
- E) is the account used to pledge securities as collateral for a margin loan.

41) An investor with a long position in a security will make money:

- A) if the price of the security increases.
- B) if the price of the security declines.
- C) if the price of the security remains stable.
- D) only if the security has been purchased on margin.
- E) only by shorting the security.

42) Which one of the following describes a short position?

- A) Purchasing a security on margin
- B) Selling a security that you originally purchased on margin
- C) Loaning a security to your broker to cover a margin call
- D) Having less equity than required in your margin account
- E) Selling a security that you do not own

43) On August 8 of this year, Brent sold 500 shares of ADO stock for \$24 a share. On September 6 of this year, he purchased 500 shares of ADO stock to cover his position. The transaction on August 8:

- A) was a short sale.
- B) was a margin trade.
- C) was a wrap transaction.
- D) created a long transaction.
- E) was a pooling transaction.

44) A short sale:

- A) creates a long position in a stock.
- B) involves the borrowing of securities.
- C) is the purchase of less than 100 shares of a stock.
- D) is a bullish outlook towards a security.
- E) is the resale of a security within four hours of purchase.

45) If you benefit when a security decreases in value, you have a _____ position in the security.

- A) long
- B) margined
- C) short
- D) covered
- E) wrapped

46) The maximum loss you can incur on a short sale is:

- A) limited to your initial equity.
- B) limited to your initial margin.
- C) limited to the margin loan plus interest.
- D) zero.
- E) unlimited.

47) What is the maximum loss you can incur if you have a long position on a stock in a cash account?

- A) The initial investment
- B) The initial margin
- C) The margin loan plus interest
- D) Zero
- E) Unlimited

48) Tate Industries stock is selling for \$20 a share. You would like to purchase as many shares of this stock as you can. Your margin account currently has available cash of \$4,500 and the initial margin requirement is 75 percent. What is the maximum number of shares you can buy?

- A) 193 shares
- B) 287 shares
- C) 300 shares
- D) 360 shares
- E) 408 shares

49) Todd has a margin account with \$17,400 in available cash. The initial margin is 70 percent and the maintenance margin is 30 percent. What is the maximum number of shares he can purchase if the price per share is \$44?

- A) 395 shares
- B) 564 shares
- C) 698 shares
- D) 744 shares
- E) 842 shares

50) Theresa has a margin account with a 60 percent initial margin requirement and a 35 percent maintenance margin. What is the maximum dollar amount of stock she can purchase if her cash balance in the account is \$35,300?

- A) \$19,140.00
- B) \$31,900.00
- C) \$44,093.33
- D) \$58,833.33
- E) \$91,142.86

51) You recently purchased 800 shares of Southern Timber stock for \$35 a share. Your broker required a cash payment of \$19,600, plus trading costs, for this purchase. What was the initial margin requirement?

- A) 60 percent
- B) 65 percent
- C) 70 percent
- D) 75 percent
- E) 80 percent

52) Donna recently purchased 500 shares of Deltona stock for \$33.00 a share. Her broker required a cash payment of \$10,725, plus trading costs, for the purchase. What is the initial margin requirement on this particular stock?

- A) 60 percent
- B) 65 percent
- C) 75 percent
- D) 80 percent
- E) 90 percent

53) Suzette recently purchased 300 shares of Nu Electronics stock for \$4.40 a share. Her broker required a cash payment of \$1,320, plus trading costs, for the purchase. What is the initial margin requirement on this stock?

- A) 70 percent
- B) 75 percent
- C) 80 percent
- D) 90 percent
- E) 100 percent

54) Stephen is purchasing 700 shares of KPT, Inc., stock at a price per share of \$20.80. What is the minimum amount the Federal Reserve will require Stephen to pay in cash for this purchase?

- A) \$4,488
- B) \$7,280
- C) \$9,800
- D) \$10,968
- E) \$11,960

55) Alfonso purchased 600 shares of Crosswinds, Inc., stock on 60 percent margin when the stock was selling for \$37 a share. The stock is currently selling for \$32 a share. What is his current equity position?

- A) \$7,680
- B) \$8,880
- C) \$9,600
- D) \$10,320
- E) \$11,560

56) You purchased 1,000 shares of stock at \$42 a share. The stock is currently selling for \$45 a share. The initial margin was 70 percent and the maintenance margin is 30 percent. What is your current margin position?

- A) 28.36 percent
- B) 25.00 percent
- C) 75.00 percent
- D) 63.59 percent
- E) 72.00 percent

57) You own 500 shares of a stock that you purchased on margin at a price per share of \$20.12. The stock is currently valued at \$24 a share. Your broker advised you today that your minimum equity position for this purchase is \$4,800 as of today. What is the maintenance margin percentage?

- A) 25 percent
- B) 30 percent
- C) 35 percent
- D) 40 percent
- E) 50 percent

58) Sun Lee purchased 1,500 shares of Franklin Metals stock for \$16.80 a share. The stock was purchased with an initial margin of 65 percent. The maintenance margin is 30 percent. The stock is currently selling for \$17.10 a share. What is the minimum dollar amount of equity that he must have in this stock today to avoid a margin call?

- A) \$7,544
- B) \$7,695
- C) \$7,760
- D) \$7,808
- E) \$7,973

59) Rosita purchased 300 shares of a stock for \$37 a share. Today, the stock is selling for \$41 a share. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. Rosita had to pay _____ in cash to purchase the stock and must have at least _____ in equity today.

- A) \$3,690; \$3,330
- B) \$3,690; \$3,690
- C) \$7,770; \$3,330
- D) \$7,770; \$3,690
- E) \$8,610; \$3,690

60) Allan purchased 500 shares of stock on margin for \$31.75 a share and sold the shares five months later for \$34.50 a share. The initial margin requirement was 65 percent and the maintenance margin was 30 percent. The interest rate on the margin loan was 8.5 percent. He received no dividend income. What was his holding period return?

- A) 7.05 percent
- B) 8.45 percent
- C) 9.88 percent
- D) 10.76 percent
- E) 11.46 percent

61) Tony purchased 100 shares of T-Rex stock for \$43 a share. On the same day, Sam also purchased 100 shares of T-Rex stock for \$43 a share. Tony paid cash for his purchase while Sam used margin. The initial margin requirement on this stock is 60 percent while the maintenance margin is 40 percent. Both Tony and Sam sold their shares after eight months at a price of \$40 a share. The stock pays no dividends. Tony had a holding period percentage return of _____ percent as compared to Sam's _____ percent return. Ignore margin interest and trading costs.

- A) -4.19; -6.98
- B) -4.19; -11.63
- C) -6.98; -4.19
- D) -6.98; -11.63
- E) -11.63; -7.56

62) Stacy purchased 400 shares of stock for \$38 a share. She sold those shares six months later for \$34 a share. The initial margin requirement is 80 percent and the maintenance margin is 40 percent. Ignore margin interest and trading costs. If she purchased the shares for cash her holding period return would be _____ percent as compared to _____ percent if she had used margin.

- A) -10.12; -12.84
- B) -10.53; -13.16
- C) -11.63; -14.30
- D) -11.63; -14.54
- E) -12.27; -15.82

63) A stock was purchased for \$45 a share and sold ten months later for \$48 a share. If the shares were purchased totally with cash the holding period return would be _____ percent as compared to _____ percent if the purchase was made using 70 percent margin. Ignore trading costs and margin interest.

- A) 5.56; 3.89
- B) 5.56; 7.94
- C) 5.88; 4.12
- D) 5.88; 6.69
- E) 5.88; 8.40

- 64) You purchased a stock for \$18.45 a share using 70 percent margin. You sold the stock seven months later for \$19.85 a share. You did not receive any dividend income. What was your holding period percentage return on this investment? Ignore trading costs and margin interest.
- A) 8.77 percent
 - B) 9.12 percent
 - C) 10.84 percent
 - D) 11.75 percent
 - E) 12.13 percent
- 65) Rudolfo purchased 900 shares of stock for \$62.20 a share and sold them ten months later for \$64.60 a share. The initial margin requirement on this stock is 75 percent and the maintenance margin is 40 percent. Ignoring dividends and costs, what is his holding period return?
- A) 3.72 percent
 - B) 3.86 percent
 - C) 4.54 percent
 - D) 4.95 percent
 - E) 5.14 percent
- 66) Mary purchased 100 shares of Best Foods stock on margin at a price of \$49 a share. The initial margin requirement is 65 percent and the maintenance margin is 30 percent. What is the lowest the stock price can go before Mary receives a margin call?
- A) \$17.00
 - B) \$24.50
 - C) \$28.00
 - D) \$30.00
 - E) \$33.00
- 67) You purchased 800 shares of stock for \$49.20 a share. The initial margin requirement is 65 percent and the maintenance margin is 35 percent. What is the lowest the stock price can go before you receive a margin call?
- A) \$9.27
 - B) \$14.54
 - C) \$17.22
 - D) \$21.88
 - E) \$26.49
- 68) Aaron purchased 300 shares of a technology stock for \$16.80 a share. The initial margin requirement on this stock is 85 percent and the maintenance margin is 60 percent. What is the lowest the stock price can go before he receives a margin call?
- A) \$4.43
 - B) \$5.55
 - C) \$6.30
 - D) \$8.33
 - E) \$10.03

69) You purchased 500 shares of stock for \$28.50 a share. The initial margin requirement is 65 percent and the maintenance margin is 35 percent. What is the maximum percentage decrease that can occur in the stock price before you receive a margin call?

- A) 35 percent
- B) 38 percent
- C) 46 percent
- D) 57 percent
- E) 62 percent

70) Nelson purchased 1,600 shares of stock for \$18.75 a share. The initial margin requirement is 70 percent and the maintenance margin is 40 percent. What is the maximum percent by which the stock price can decline before he receives a margin call?

- A) 30 percent
- B) 45 percent
- C) 50 percent
- D) 65 percent
- E) 70 percent

71) You purchase 500 shares of stock on margin at a cost per share of \$22. The initial margin requirement is 60 percent. The effective interest rate on the margin loan is 6.4 percent. How much interest will you pay if you repay the loan in four months?

- A) \$68.77
- B) \$91.93
- C) \$102.16
- D) \$112.38
- E) \$117.04

72) Sarah purchased 600 shares of Detroit Motors stock at a price of \$60 a share. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. The effective interest rate on the margin loan is 6.5 percent. How much margin interest will she pay if she repays the loan in seven months?

- A) \$387.29
- B) \$404.12
- C) \$417.29
- D) \$530.42
- E) \$647.96

73) Today, you are purchasing 100 shares of stock on margin. The purchase price per share is \$35. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. The call money rate is 4.5 percent and you are charged 1.6 percent over that rate. What will your rate of return be if you sell your shares one year from now for \$37 a share? Ignore dividends.

- A) 5.55 percent
- B) 6.42 percent
- C) 7.18 percent
- D) 7.49 percent
- E) 8.03 percent

74) Seven months ago, you purchased 400 shares of stock on margin. The initial margin requirement on your account is 60 percent and the maintenance margin is 30 percent. The call money rate is 4.8 percent and you pay 1.85 percent above that rate. The purchase price was \$16 a share. Today, you sold these shares for \$18.00 each. What is your annualized rate of return?

- A) 26.15 percent
- B) 33.35 percent
- C) 42.77 percent
- D) 56.87 percent
- E) 64.64 percent

75) Eight months ago, Freda purchased 500 shares of stock on margin at a price per share of \$35. The initial margin requirement on her account is 70 percent and the maintenance margin is 40 percent. The call money rate is 4.75 percent and she pays 2 percent above that rate. Today, she sold these shares for \$37.50 each. What is her annualized rate of return?

- A) 8.50 percent
- B) 10.61 percent
- C) 12.70 percent
- D) 14.90 percent
- E) 16.42 percent

76) Three months ago, Trevor purchased 500 shares of stock at a cost per share of \$64.20. The purchase was made on margin with an initial margin requirement of 65 percent. Trevor pays 1.6 percent over the call money rate of 4.8 percent. What will his total dollar return be on this investment if he sells his shares today at a price per share of \$63.40? Ignore dividends.

- A) -\$548.60
- B) -\$539.67
- C) -\$534.95
- D) -\$575.60
- E) -\$591.19

77) Robin sold 800 shares of a non-dividend paying stock this morning for a total of \$29,440. She had purchased these shares on margin nine months ago at a cost per share of \$35. The initial margin requirement on this stock is 60 percent and the maintenance margin is 30 percent. Robin pays 1.2 percent over the call money rate of 4.9 percent. What is her total dollar return on this investment?

- A) \$816.48
- B) \$897.29
- C) \$931.41
- D) \$1,164.93
- E) \$1,440.00

78) You recently purchased 200 shares of stock at a cost per share of \$32.50. The initial margin requirement on this stock is 75 percent and the maintenance margin is 50 percent. The stock is currently valued at \$35.00 a share. What is your current margin position? Ignore margin interest.

- A) 73.01 percent
- B) 73.83 percent
- C) 74.95 percent
- D) 75.69 percent
- E) 76.79 percent

79) You recently purchased 1,300 shares of stock at a cost per share of \$54.10. The initial margin requirement on this stock is 60 percent and the maintenance margin is 30 percent. The stock is currently valued at \$42.30 a share. What is your current margin position? Ignore margin interest.

- A) 46.91 percent
- B) 48.84 percent
- C) 63.05 percent
- D) 65.28 percent
- E) 78.18 percent

80) Yvette recently purchased 500 shares of stock at a cost per share of \$43.50. The initial margin requirement on this stock is 75 percent and the maintenance margin is 40 percent. The stock is currently valued at \$44.75 a share. What is her current margin position? Ignore margin interest.

- A) 74.29 percent
- B) 74.78 percent
- C) 75.70 percent
- D) 76.03 percent
- E) 76.14 percent

81) You short sold 700 shares of a stock at \$25 a share. The initial margin requirement is 75 percent and the maintenance margin is 35 percent. What is the amount of your total liability for this transaction as initially shown on your account balance sheet?

- A) \$8,640
- B) \$17,500
- C) \$22,210
- D) \$28,800
- E) \$37,440

82) Elizabeth short sold 400 shares of stock at \$72 a share. One month later, she covered the short at a price of \$68. What was her total dollar return on this investment?

- A) -\$2,400
- B) -\$1,800
- C) -\$920
- D) \$1,600
- E) \$2,200

83) Today, you short sold 1,100 shares of Jasper Industrial stock at \$48 a share. The initial margin is 60 percent and the maintenance margin is 30 percent. Which one of the following is correct concerning your account balance sheet for this transaction?

- A) You have an asset of \$31,680 from the sale proceeds.
- B) You have a liability from the short position of \$21,120.
- C) Your account equity is \$21,120.
- D) Your initial margin deposit is \$15,840.
- E) Your total assets are \$84,480.

84) Mark short sold 500 shares of stock at \$12.50 a share. The initial margin is 80 percent and the maintenance margin is 50 percent. The stock is currently selling for \$9.80 a share. What is Matt's account equity at this time? Ignore margin interest.

- A) \$2,070
- B) \$4,590
- C) \$6,350
- D) \$8,950
- E) \$10,510

85) You short sold 500 shares of Jasper stock at \$41 a share at an initial margin of 60 percent. What is the highest the stock price can go before you receive a margin call if the maintenance margin is 40 percent?

- A) \$46.86
- B) \$47.08
- C) \$55.50
- D) \$56.90
- E) \$57.40

86) Jennifer believes that Northern Wine stock is going to decline in value so she is short selling 1,000 shares at \$32 a share. Her initial margin requirement is 70 percent and the maintenance margin is 30 percent. What is the highest the stock price can go before she receives a margin call?

- A) \$38.97
- B) \$40.15
- C) \$41.85
- D) \$43.75
- E) \$45.77

87) Mike short sold 400 shares of DeSoto Lumber stock at \$22 a share at an initial margin of 70 percent. The maintenance margin is 35 percent. What is the highest the stock price can go before he receives a margin call?

- A) \$24.12
- B) \$25.48
- C) \$26.22
- D) \$27.70
- E) \$28.16

88) The short interest on Blue Water Cruisers stock was 351,900 when the market opened this morning. During the day, 288,500 shares were covered and 151,600 shares were sold short. What was the short interest on this stock at the end of the trading day?

- A) 203,100 shares
- B) 215,000 shares
- C) 233,100 shares
- D) 308,100 shares
- E) 447,900 shares

89) You just sold 1,200 shares of stock short at a price per share of \$13.50. The initial margin requirement is 60 percent and the maintenance margin is 30 percent. What is your initial equity position?

- A) \$6,480
- B) \$7,520
- C) \$9,720
- D) \$10,520
- E) \$16,200

90) Last week, you sold 300 shares of ABC stock for \$6,300. The sale was a short sale with an initial margin requirement of 70 percent. The maintenance margin is 40 percent. Some positive news concerning the company was released last night and the stock price jumped this morning to \$28 a share. What is your current margin position in this stock?

- A) 61.33 percent
- B) 56.67 percent
- C) 48.33 percent
- D) 38.68 percent
- E) 27.50 percent

91) Recently, you sold 1,000 shares of stock for \$21,400. The sale was a short sale with an initial margin requirement of 60 percent. The maintenance margin is 30 percent. The stock is currently trading at \$27.50 a share. What is your current margin position in this stock?

- A) 24.51 percent
- B) 28.11 percent
- C) 32.09 percent
- D) 43.98 percent
- E) 46.69 percent

92) Recently, you sold 500 shares of stock for \$16.60 a share. The sale was a short sale with an initial margin requirement of 70 percent. The maintenance margin is 35 percent. The stock is currently trading at \$17.80 a share. What is your current short position in this stock?

- A) \$4,916
- B) \$6,830
- C) \$8,900
- D) \$10,362
- E) \$11,976

93) Neshoba Industries stock is selling for \$33 a share. You would like to purchase as many shares of this stock as you can. Your margin account currently has available cash of \$7,000 and the initial margin requirement is 65 percent. What is the maximum number of shares you can buy?

- A) 193 shares
- B) 287 shares
- C) 300 shares
- D) 326 shares
- E) 408 shares

94) Sam is purchasing 800 shares of RPT, Inc., stock at a price per share of \$15.50. What is the minimum amount the Federal Reserve will require Sam to pay in cash for this purchase?

- A) \$4,488
- B) \$6,200
- C) \$9,800
- D) \$10,968
- E) \$11,960

95) Louis purchased 300 shares of stock on margin for \$22.15 a share and sold the shares eleven months later for \$24.50 a share. The initial margin requirement was 75 percent and the maintenance margin was 30 percent. The interest rate on the margin loan was 8.5 percent. He received no dividend income. What was his holding period return?

- A) 7.05 percent
- B) 8.45 percent
- C) 9.88 percent
- D) 10.76 percent
- E) 11.56 percent

96) Marcia purchased 100 shares of Hyde Foods stock on margin at a price of \$35 a share. The initial margin requirement is 65 percent and the maintenance margin is 35 percent. What is the lowest the stock price can go before Marcia receives a margin call?

- A) \$18.85
- B) \$24.50
- C) \$28.00
- D) \$30.00
- E) \$33.00

97) Sarah purchased 700 shares of Detroit Motors stock at a price of \$45 a share. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. The effective interest rate on the margin loan is 6.5 percent. How much margin interest will she pay if she repays the loan in five months?

- A) \$187.29
- B) \$204.12
- C) \$217.29
- D) \$230.42
- E) \$251.25

98) You recently purchased 200 shares of stock at a cost per share of \$22.25. The initial margin requirement on this stock is 75 percent and the maintenance margin is 50 percent. The stock is currently valued at \$24.00 a share. What is your current margin position? Ignore margin interest.

- A) 73.01 percent
- B) 73.83 percent
- C) 74.95 percent
- D) 75.69 percent
- E) 76.82 percent

99) Rylee short sold 600 shares of stock at \$16.25 a share. The initial margin is 75 percent and the maintenance margin is 50 percent. The stock is currently selling for \$19.50 a share. What is Rylee's account equity at this time? Ignore margin interest.

- A) \$1,070.75
- B) \$3,590.25
- C) \$5,362.50
- D) \$8,950.00
- E) \$10,510.35

100) Last week, you sold 800 shares of Ace stock for \$24,000. The sale was a short sale with an initial margin requirement of 70 percent. The maintenance margin is 40 percent. Some positive news concerning the company was released last night and the stock price jumped this morning to \$35 a share. What is your current margin position in this stock?

- A) 61.33 percent
- B) 56.67 percent
- C) 45.71 percent
- D) 38.68 percent
- E) 27.50 percent

Fundamentals of Investments, 8e (Jordan)
Chapter 2 The Investment Process

1) 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.

Answer: C

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Market timing

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

2) 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.

Answer: D

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Asset allocation and security selection

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

3) Jack is researching chemical companies in an effort to determine which company's stock he should purchase. This process is known as:

- A) market timing.
- B) purchase shorting.
- C) marketing research.
- D) asset allocation.
- E) security selection.

Answer: E

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Asset allocation and security selection

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

4) A Roth IRA:

- A) is a form of "tax-deferred" account.
- B) funds are taxed at the time you begin withdrawals.
- C) are well-suited to investors nearing retirement.
- D) invests after-tax dollars.
- E) is the type of account offered by most employers.

Answer: D

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Tax shelters

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

5) A brokerage account in which purchases can be made using credit is referred to as which type of account?

- A) clearing
- B) funds available
- C) cash
- D) call
- E) margin

Answer: E

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

6) Kay just purchased \$5,000 worth of stock. She paid \$3,000 in cash and borrowed \$2,000. In this example, the term margin refers to:

- A) the total amount of the purchase.
- B) the percentage of the purchase that was paid in cash.
- C) the percentage of the purchase paid with borrowed funds.
- D) any future increase in the value of the stock.
- E) any future decrease in the value of the stock.

Answer: B

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

- 7) Which one of the following best describes the term "initial margin"?
- A) Amount of money that must be deposited to open a margin account with a broker
 - B) Amount of cash that must be paid to purchase a security on margin
 - C) Amount of cash that must be paid when a broker issues a margin call
 - D) Amount of money borrowed when a security is purchased
 - E) Total loan amount offered to a customer by a brokerage firm to cover future purchases

Answer: B

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

- 8) The minimum equity that must be maintained at all times in a margin account is called the:
- A) initial margin.
 - B) initial equity position.
 - C) maintenance margin.
 - D) call requirement.
 - E) margin call.

Answer: C

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

9) When your equity position in a security is less than the required amount, your brokerage firm will issue a:

- A) margin call.
- B) margin certificate.
- C) cash certificate.
- D) limit order.
- E) leverage call.

Answer: A

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

10) Sam purchased 500 shares of Microsoft stock which he has pledged to his broker as collateral for the loan in his margin account. This process of pledging securities is called:

- A) margin calling.
- B) hypothecation.
- C) leveraging.
- D) maintaining the margin.
- E) street securitization.

Answer: B

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

- 11) Staci owns 1,000 shares of stock in a margin account. Those shares are most likely held in:
- A) transit.
 - B) her registered name.
 - C) street name.
 - D) a wrap account.
 - E) a discretionary account.

Answer: C

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

- 12) This morning, Josh sold 800 shares of stock that he did not own. This sale is referred to as a:
- A) margin sale.
 - B) long position.
 - C) wrap trade.
 - D) hypothecated sale.
 - E) short sale.

Answer: E

Explanation: See Section 2.4

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

13) The amount of common stock held in short positions is referred to as the short:

- A) margin.
- B) shares.
- C) proceeds.
- D) sale.
- E) interest.

Answer: E

Explanation: See Section 2.4

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

14) A company that owns income-producing real estate such as an apartment complex or a retail shopping center is called a(n):

- A) REIT.
- B) SIPC.
- C) REEF.
- D) EAR.
- E) SPIC.

Answer: A

Explanation: See Section 2.5

Difficulty: 1 Easy

Section: 2.5 Forming an Investment Portfolio

Topic: Real estate investment trusts

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

- 15) An investor who has a resource constraint:
- A) pays no income taxes.
 - B) has insufficient funds to purchase a security.
 - C) has a relatively high marginal tax rate.
 - D) has only one source of income.
 - E) will only invest in socially acceptable securities.

Answer: B

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.1 The Investment Policy Statement

Topic: Investor constraints

Learning Objective: 02-01 The importance of an investment policy statement.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

- 16) To be considered liquid, a security must:
- A) be held in a cash account.
 - B) pay dividends.
 - C) be able to be sold on short notice.
 - D) be held for less than one year.
 - E) be able to be sold quickly with little, if any, price concession.

Answer: E

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.1 The Investment Policy Statement

Topic: Stock trading and strategies

Learning Objective: 02-01 The importance of an investment policy statement.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

17) Walter is trying to decide whether he wants to purchase shares in General Motors, Ford, or Honda, all of which are auto manufacturers. Walter is making a(n) _____ decision.

- A) security selection
- B) tax-advantaged
- C) risk aversion
- D) active strategy
- E) asset allocation

Answer: A

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.1 The Investment Policy Statement

Topic: Asset allocation and security selection

Learning Objective: 02-01 The importance of an investment policy statement.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

18) Brooke has decided to invest 55 percent of her money in large company stocks, 40 percent in small company stocks, and 5 percent in cash. This is a(n) _____ decision.

- A) market timing
- B) security selection
- C) tax-advantaged
- D) active strategy
- E) asset allocation

Answer: E

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.1 The Investment Policy Statement

Topic: Asset allocation and security selection

Learning Objective: 02-01 The importance of an investment policy statement.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

19) Kay plans to retire in two years and wishes to liquidate her account at that time. Kay has a _____ constraint.

- A) resource
- B) horizon
- C) liquidity
- D) tax
- E) special circumstances

Answer: B

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.1 The Investment Policy Statement

Topic: Investor constraints

Learning Objective: 02-01 The importance of an investment policy statement.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

20) The SIPC:

- A) guarantees investors against any loss related to an investment account held at a brokerage firm.
- B) guarantees cash balances held in brokerage accounts up to \$500,000.
- C) is an agency of the federal government.
- D) protects private brokerage firms from bankruptcy.
- E) protects investors from missing assets when a brokerage firm closes.

Answer: E

Explanation: See Section 2.2

Difficulty: 1 Easy

Section: 2.2 Investment Professionals

Topic: Financial market regulation and protections

Learning Objective: 02-02 The various types of securities brokers and brokerage accounts.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

21) The determination of which individual stocks to purchase within a particular asset class is referred to as:

- A) security selection.
- B) asset allocation.
- C) security analysis.
- D) market timing.
- E) market selection.

Answer: A

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.1 The Investment Policy Statement

Topic: Asset allocation and security selection

Learning Objective: 02-01 The importance of an investment policy statement.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

22) An investor who follows a fully active strategy will:

- A) move money between asset classes as well as try to select the best performers in each class.
- B) move money between asset classes but will not be concerned about which individual securities are owned.
- C) focus on picking individual stocks only.
- D) maintain a relatively constant mix of asset classes while continually buying and selling individual securities.
- E) concentrate solely on asset allocation to maximize potential returns.

Answer: A

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.1 The Investment Policy Statement

Topic: Active portfolio management

Learning Objective: 02-01 The importance of an investment policy statement.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

23) Which one of the following decisions falls under the category of asset allocation?

- A) Purchasing Ford stock rather than General Motors stock
- B) Determining that thirty percent of a portfolio should be invested in bonds
- C) Adopting a passive investment strategy
- D) Deciding to actively analyse individual securities
- E) Deciding to use an online broker

Answer: B

Explanation: See Section 2.1

Difficulty: 1 Easy

Section: 2.1 The Investment Policy Statement

Topic: Asset allocation and security selection

Learning Objective: 02-01 The importance of an investment policy statement.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

24) Tom recently inherited a large sum of money that he wants to invest in the stock market. Since he has no investment experience, he has decided that he would like to work with a professional who can explain the market to him and also manage his funds for him. Ted most likely needs the services offered by a(n):

- A) deep-discount broker.
- B) discount broker.
- C) full-service broker.
- D) online broker.
- E) cyber broker.

Answer: C

Explanation: See Section 2.2

Difficulty: 1 Easy

Section: 2.2 Investment Professionals

Topic: Investment professionals

Learning Objective: 02-02 The various types of securities brokers and brokerage accounts.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

25) Which one of the following statements is correct?

- A) Most brokerage agreements require disputes be settled in a court of law.
- B) Arbitration is a formal legal process for settling disputes related to brokerage accounts.
- C) Churning is the preferred method of providing deep-discount brokerage services.
- D) Discount brokers only provide order execution services.
- E) Full service brokers frequently provide financial planning services to clients.

Answer: E

Explanation: See Section 2.2

Difficulty: 1 Easy

Section: 2.2 Investment Professionals

Topic: Investment professionals

Learning Objective: 02-02 The various types of securities brokers and brokerage accounts.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

26) Martin has an investment account with William, who is a broker with City Brokerage. Martin believes that William has mishandled his account by churning it. If he files a complaint against William seeking compensation, the case will most likely be decided by:

- A) the office manager of City Brokerage.
- B) a civil suit judge.
- C) a jury.
- D) an arbitration panel.
- E) the SEC Hearing Board.

Answer: D

Explanation: See Section 2.2

Difficulty: 1 Easy

Section: 2.2 Investment Professionals

Topic: Financial market regulation and protections

Learning Objective: 02-02 The various types of securities brokers and brokerage accounts.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

27) You currently have \$5,000 in cash in your brokerage account. You decide to spend \$8,000 to purchase shares of stock and borrow \$3,000 from your broker to do so. Which type of brokerage account do you have?

- A) Cash
- B) Wrap
- C) Margin
- D) Short
- E) Asset allocation

Answer: C

Explanation: See Section 2.2

Difficulty: 1 Easy

Section: 2.2 Investment Professionals

Topic: Margin

Learning Objective: 02-02 The various types of securities brokers and brokerage accounts.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

28) Which one of the following statements is correct?

- A) The call money rate is the rate of interest brokerage firms charge on margin loans.
- B) The spread is the fee a deep-discount broker charges to execute a trade.
- C) The percentage of a purchase paid for with borrowed funds is referred to as the margin.
- D) A margin loan is treated as an asset on an account balance sheet.
- E) Margin is equal to account equity divided by the value of the securities owned.

Answer: E

Explanation: See Section 2.2

Difficulty: 1 Easy

Section: 2.2 Investment Professionals

Topic: Margin

Learning Objective: 02-02 The various types of securities brokers and brokerage accounts.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

29) Staci just used \$5,000 of cash plus a \$2,500 margin loan to purchase \$7,500 worth of stock. This is the only transaction in her brokerage account. According to her account balance sheet, she now has account equity of:

- A) \$2,500.
- B) \$5,000.
- C) \$7,500.
- D) \$12,500.
- E) \$15,000.

Answer: B

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

30) Ann just purchased \$10,000 of stock. She paid \$8,000 in cash and borrowed the remaining \$2,000 needed to pay for this purchase. If you constructed a balance sheet reflecting this transaction, the total assets would be:

- A) \$3,000.
- B) \$9,000.
- C) \$10,000.
- D) \$15,000.
- E) \$21,000.

Answer: C

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

31) Anita wants to buy \$10,000 of securities in her margin account. Her advisor has informed her that she must pay a minimum of \$7,000 in cash and maintain a minimum equity position of 30 percent. The initial margin requirement is _____ percent and the maintenance margin is _____ percent.

- A) 30; 30
- B) 30; 70
- C) 70; 30
- D) 70; 50
- E) 70; 70

Answer: C

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

32) The absolute minimum initial margin requirement is set by the:

- A) individual investor.
- B) brokerage firm.
- C) Federal Reserve.
- D) Security Investors Protection Corporation.
- E) Securities and Exchange Commission.

Answer: C

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

33) You open a margin account with a local broker and purchase shares of stock. The house maintenance margin requirement for your account is set by:

- A) your broker.
- B) the stock exchange.
- C) the SEC.
- D) the SIPC.
- E) the Federal Reserve.

Answer: A

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

34) If you opt to purchase shares of stock on margin rather than with cash, you will:

- A) decrease your maximum potential rate of return.
- B) increase your maximum potential rate of return.
- C) guarantee yourself a profit.
- D) eliminate any potential profit.
- E) have equal rates of return regardless of how the purchase is made.

Answer: B

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

35) What is the purpose of a margin call?

- A) to inform you that your margin loan is due and payable
- B) to demand funds to increase your margin position
- C) to let you know the amount of funds that are now available for you to borrow
- D) to advise you that the interest rate on your loan has changed
- E) to remind you of the upcoming monthly payment due on your margin loan

Answer: B

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

36) If you ignore a margin call, your broker:

- A) will seize all the assets in your account.
- B) will close your account.
- C) may place a short sale on your behalf to cover the amount of the call.
- D) may sell some of your securities to repay the margin loan.
- E) will increase both your margin loan and the rate of interest on that loan.

Answer: D

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

37) Lauren Mitchell has a margin account with a local brokerage firm, RL Brokers. She recently purchased 200 shares of Abbot Industries common stock that trades on the New York Stock Exchange (NYSE). These shares are held in street name and are registered under the name of:

- A) Lauren Mitchell.
- B) RL Brokers.
- C) Abbot Industries.
- D) the New York Stock Exchange.
- E) the Securities and Exchange Commission.

Answer: B

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

38) Which one of the following is generally true concerning securities held in street name?

- A) The securities are registered under your mailing address rather than your name.
- B) There is a greater likelihood the security may be stolen.
- C) All dividend checks are mailed to your street address.
- D) The annual stock report is mailed directly to your street address.
- E) The brokerage firm is the owner of record.

Answer: E

Explanation: See Section 2.3

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

39) Sarah has a brokerage account with Jeff, who is a money manager with Downtown Brokers. Sarah pays an all-inclusive annual fee to the firm and Jeff manages her funds. She pays no trading costs or commissions. Which one of the following best describes this type of account?

- A) wrap
- B) cash
- C) margin
- D) mutual
- E) advisory

Answer: A

Explanation: See Section 2.2

Difficulty: 1 Easy

Section: 2.2 Investment Professionals

Topic: Account registration and types

Learning Objective: 02-02 The various types of securities brokers and brokerage accounts.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

40) A discretionary account:

- A) authorizes a broker to trade securities on your behalf.
- B) charges an annual fee to cover all trading and management services.
- C) is the term applied to brokerage accounts with check-writing and credit card services.
- D) is the same as a wrap account.
- E) is the account used to pledge securities as collateral for a margin loan.

Answer: A

Explanation: See Section 2.2

Difficulty: 1 Easy

Section: 2.2 Investment Professionals

Topic: Account registration and types

Learning Objective: 02-02 The various types of securities brokers and brokerage accounts.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

- 41) An investor with a long position in a security will make money:
- A) if the price of the security increases.
 - B) if the price of the security declines.
 - C) if the price of the security remains stable.
 - D) only if the security has been purchased on margin.
 - E) only by shorting the security.

Answer: A

Explanation: See Section 2.4

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Investment strategies and policies

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

- 42) Which one of the following describes a short position?
- A) Purchasing a security on margin
 - B) Selling a security that you originally purchased on margin
 - C) Loaning a security to your broker to cover a margin call
 - D) Having less equity than required in your margin account
 - E) Selling a security that you do not own

Answer: E

Explanation: See Section 2.4

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

43) On August 8 of this year, Brent sold 500 shares of ADO stock for \$24 a share. On September 6 of this year, he purchased 500 shares of ADO stock to cover his position. The transaction on August 8:

- A) was a short sale.
- B) was a margin trade.
- C) was a wrap transaction.
- D) created a long transaction.
- E) was a pooling transaction.

Answer: A

Explanation: See Section 2.4

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

44) A short sale:

- A) creates a long position in a stock.
- B) involves the borrowing of securities.
- C) is the purchase of less than 100 shares of a stock.
- D) is a bullish outlook towards a security.
- E) is the resale of a security within four hours of purchase.

Answer: B

Explanation: See Section 2.4

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

45) If you benefit when a security decreases in value, you have a _____ position in the security.

- A) long
- B) margined
- C) short
- D) covered
- E) wrapped

Answer: C

Explanation: See Section 2.4

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

46) The maximum loss you can incur on a short sale is:

- A) limited to your initial equity.
- B) limited to your initial margin.
- C) limited to the margin loan plus interest.
- D) zero.
- E) unlimited.

Answer: E

Explanation: See Section 2.4

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 2 Understand

Accessibility: Keyboard Navigation

47) What is the maximum loss you can incur if you have a long position on a stock in a cash account?

- A) The initial investment
- B) The initial margin
- C) The margin loan plus interest
- D) Zero
- E) Unlimited

Answer: A

Explanation: See Section 2.4

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Stock returns and yields

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 1 Remember

Accessibility: Keyboard Navigation

48) Tate Industries stock is selling for \$20 a share. You would like to purchase as many shares of this stock as you can. Your margin account currently has available cash of \$4,500 and the initial margin requirement is 75 percent. What is the maximum number of shares you can buy?

- A) 193 shares
- B) 287 shares
- C) 300 shares
- D) 360 shares
- E) 408 shares

Answer: C

Explanation: $\text{Maximum purchase} = \$4,500 / 0.75 = \$6,000$

$\text{Maximum number of shares} = \$6000 / \$20 = 300$ shares, rounded down to the last full share

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

49) Todd has a margin account with \$17,400 in available cash. The initial margin is 70 percent and the maintenance margin is 30 percent. What is the maximum number of shares he can purchase if the price per share is \$44?

- A) 395 shares
- B) 564 shares
- C) 698 shares
- D) 744 shares
- E) 842 shares

Answer: B

Explanation: Maximum purchase = $\$17,400 / 0.7 = \$24,857.14$

Maximum number of shares = $\$24,857.14 / \$44 = 564$ shares, rounded down to the last full share

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

50) Theresa has a margin account with a 60 percent initial margin requirement and a 35 percent maintenance margin. What is the maximum dollar amount of stock she can purchase if her cash balance in the account is \$35,300?

- A) \$19,140.00
- B) \$31,900.00
- C) \$44,093.33
- D) \$58,833.33
- E) \$91,142.86

Answer: D

Explanation: Maximum purchase = $\$35,300 / 0.60 = \$58,833.33$

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

51) You recently purchased 800 shares of Southern Timber stock for \$35 a share. Your broker required a cash payment of \$19,600, plus trading costs, for this purchase. What was the initial margin requirement?

- A) 60 percent
- B) 65 percent
- C) 70 percent
- D) 75 percent
- E) 80 percent

Answer: C

Explanation: Purchase cost = $800 \times \$35 = \$28,000$

Initial margin percentage = $\$19,600 / \$28,000 = 70$ percent

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

52) Donna recently purchased 500 shares of Deltona stock for \$33.00 a share. Her broker required a cash payment of \$10,725, plus trading costs, for the purchase. What is the initial margin requirement on this particular stock?

- A) 60 percent
- B) 65 percent
- C) 75 percent
- D) 80 percent
- E) 90 percent

Answer: B

Explanation: Purchase cost = $500 \times \$33.00 = \$16,500$

Initial margin percentage = $\$10,725 / \$16,500 = 65$ percent

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

53) Suzette recently purchased 300 shares of Nu Electronics stock for \$4.40 a share. Her broker required a cash payment of \$1,320, plus trading costs, for the purchase. What is the initial margin requirement on this stock?

- A) 70 percent
- B) 75 percent
- C) 80 percent
- D) 90 percent
- E) 100 percent

Answer: E

Explanation: $\text{Purchase cost} = 300 \times \$4.40 = \$1,320$

$\text{Initial margin percentage} = \$1,320 / \$1,320 = 100 \text{ percent}$

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

54) Stephen is purchasing 700 shares of KPT, Inc., stock at a price per share of \$20.80. What is the minimum amount the Federal Reserve will require Stephen to pay in cash for this purchase?

- A) \$4,488
- B) \$7,280
- C) \$9,800
- D) \$10,968
- E) \$11,960

Answer: B

Explanation: $\text{Minimum cash required} = 0.50 \times 700 \times \$20.80 = \$7,280$

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

55) Alfonso purchased 600 shares of Crosswinds, Inc., stock on 60 percent margin when the stock was selling for \$37 a share. The stock is currently selling for \$32 a share. What is his current equity position?

- A) \$7,680
- B) \$8,880
- C) \$9,600
- D) \$10,320
- E) \$11,560

Answer: D

Explanation: $\text{Margin loan} = 600 \times \$37 \times (1 - 0.60) = \$8,880$

$\text{Current equity} = (600 \times \$32) - \$8,880 = \$10,320$

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

56) You purchased 1,000 shares of stock at \$42 a share. The stock is currently selling for \$45 a share. The initial margin was 70 percent and the maintenance margin is 30 percent. What is your current margin position?

- A) 28.36 percent
- B) 25.00 percent
- C) 75.00 percent
- D) 63.59 percent
- E) 72.00 percent

Answer: E

Explanation: $\text{Margin loan} = 1,000 \times \$42 \times (1 - 0.70) = \$12,600$

$\text{Current equity} = (1,000 \times \$45) - \$12,600 = \$32,400$

$\text{Margin position} = \$32,400 / (1,000 \times \$45) = 72.00 \text{ percent}$

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

57) You own 500 shares of a stock that you purchased on margin at a price per share of \$20.12. The stock is currently valued at \$24 a share. Your broker advised you today that your minimum equity position for this purchase is \$4,800 as of today. What is the maintenance margin percentage?

- A) 25 percent
- B) 30 percent
- C) 35 percent
- D) 40 percent
- E) 50 percent

Answer: D

Explanation: Maintenance margin percentage = $\$4,800 / (500 \times \$24) = 40$ percent

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

58) Sun Lee purchased 1,500 shares of Franklin Metals stock for \$16.80 a share. The stock was purchased with an initial margin of 65 percent. The maintenance margin is 30 percent. The stock is currently selling for \$17.10 a share. What is the minimum dollar amount of equity that he must have in this stock today to avoid a margin call?

- A) \$7,544
- B) \$7,695
- C) \$7,760
- D) \$7,808
- E) \$7,973

Answer: B

Explanation: Minimum equity = $1,500 \times \$17.10 \times 0.30 = \$7,695$

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

59) Rosita purchased 300 shares of a stock for \$37 a share. Today, the stock is selling for \$41 a share. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. Rosita had to pay _____ in cash to purchase the stock and must have at least _____ in equity today.

- A) \$3,690; \$3,330
- B) \$3,690; \$3,690
- C) \$7,770; \$3,330
- D) \$7,770; \$3,690
- E) \$8,610; \$3,690

Answer: D

Explanation: Initial cash requirement = $300 \times \$37 \times 0.70 = \$7,770$

Current equity requirement = $300 \times \$41 \times 0.30 = \$3,690$

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

60) Allan purchased 500 shares of stock on margin for \$31.75 a share and sold the shares five months later for \$34.50 a share. The initial margin requirement was 65 percent and the maintenance margin was 30 percent. The interest rate on the margin loan was 8.5 percent. He received no dividend income. What was his holding period return?

- A) 7.05 percent
- B) 8.45 percent
- C) 9.88 percent
- D) 10.76 percent
- E) 11.46 percent

Answer: E

Explanation: Initial investment = $500 \times \$31.75 \times 0.65 = \$10,318.75$

Loan repayment = $[500 \times \$31.75 \times (1 - 0.65)] \times (1.085)^{5/12} = \$5,748.36$

HPR = $[(500 \times \$34.50) - \$5,748.39 - \$10,318.75] / \$10,318.75 = 11.46 \text{ percent}$

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

- 61) Tony purchased 100 shares of T-Rex stock for \$43 a share. On the same day, Sam also purchased 100 shares of T-Rex stock for \$43 a share. Tony paid cash for his purchase while Sam used margin. The initial margin requirement on this stock is 60 percent while the maintenance margin is 40 percent. Both Tony and Sam sold their shares after eight months at a price of \$40 a share. The stock pays no dividends. Tony had a holding period percentage return of _____ percent as compared to Sam's _____ percent return. Ignore margin interest and trading costs.
- A) -4.19; -6.98
 - B) -4.19; -11.63
 - C) -6.98; -4.19
 - D) -6.98; -11.63
 - E) -11.63; -7.56

Answer: D

Explanation: Tony's HPR without margin = $[100 \times (\$40 - \$43)] / (100 \times \$43) = -6.98$ percent

Sam's HPR with margin = $[100 \times (\$40 - \$43)] / (100 \times \$43 \times 0.60) = -11.63$ percent

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

- 62) Stacy purchased 400 shares of stock for \$38 a share. She sold those shares six months later for \$34 a share. The initial margin requirement is 80 percent and the maintenance margin is 40 percent. Ignore margin interest and trading costs. If she purchased the shares for cash her holding period return would be _____ percent as compared to _____ percent if she had used margin.
- A) -10.12; -12.84
 - B) -10.53; -13.16
 - C) -11.63; -14.30
 - D) -11.63; -14.54
 - E) -12.27; -15.82

Answer: B

Explanation: HPR without margin = $(\$34 - \$38) / \$38 = -10.53$ percent

HPR with margin = $(\$34 - \$38) / (\$38 \times 0.80) = -13.16$ percent

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

63) A stock was purchased for \$45 a share and sold ten months later for \$48 a share. If the shares were purchased totally with cash the holding period return would be _____ percent as compared to _____ percent if the purchase was made using 70 percent margin. Ignore trading costs and margin interest.

- A) 5.56; 3.89
- B) 5.56; 7.94
- C) 5.88; 4.12
- D) 5.88; 6.69
- E) 5.88; 8.40

Answer: B

Explanation: $\text{HPR without margin} = (\$48 - \$45) / \$45 = 5.56 \text{ percent}$

$\text{HPR with margin} = (\$48 - \$45) / (\$45 \times 0.70) = 7.94 \text{ percent}$

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

64) You purchased a stock for \$18.45 a share using 70 percent margin. You sold the stock seven months later for \$19.85 a share. You did not receive any dividend income. What was your holding period percentage return on this investment? Ignore trading costs and margin interest.

- A) 8.77 percent
- B) 9.12 percent
- C) 10.84 percent
- D) 11.75 percent
- E) 12.13 percent

Answer: C

Explanation: $\text{HPR} = (\$19.85 - \$18.45) / (\$18.45 \times 0.70) = 10.84 \text{ percent}$

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

65) Rudolfo purchased 900 shares of stock for \$62.20 a share and sold them ten months later for \$64.60 a share. The initial margin requirement on this stock is 75 percent and the maintenance margin is 40 percent. Ignoring dividends and costs, what is his holding period return?

- A) 3.72 percent
- B) 3.86 percent
- C) 4.54 percent
- D) 4.95 percent
- E) 5.14 percent

Answer: E

Explanation: $HPR = (\$64.60 - \$62.20) / (\$62.20 \times 0.75) = 5.14 \text{ percent}$

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

66) Mary purchased 100 shares of Best Foods stock on margin at a price of \$49 a share. The initial margin requirement is 65 percent and the maintenance margin is 30 percent. What is the lowest the stock price can go before Mary receives a margin call?

- A) \$17.00
- B) \$24.50
- C) \$28.00
- D) \$30.00
- E) \$33.00

Answer: B

Explanation: $P^* = \{[100 \times \$49 \times (1 - 0.65)] / 100\} / (1 - 0.30) = \24.50

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

67) You purchased 800 shares of stock for \$49.20 a share. The initial margin requirement is 65 percent and the maintenance margin is 35 percent. What is the lowest the stock price can go before you receive a margin call?

- A) \$9.27
- B) \$14.54
- C) \$17.22
- D) \$21.88
- E) \$26.49

Answer: E

Explanation: $P^* = \{[800 \times \$49.20 \times (1 - 0.65)] / 800\} / (1 - 0.35) = \26.49

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

68) Aaron purchased 300 shares of a technology stock for \$16.80 a share. The initial margin requirement on this stock is 85 percent and the maintenance margin is 60 percent. What is the lowest the stock price can go before he receives a margin call?

- A) \$4.43
- B) \$5.55
- C) \$6.30
- D) \$8.33
- E) \$10.03

Answer: C

Explanation: $P^* = \{[300 \times \$16.80 \times (1 - 0.85)] / 300\} / (1 - 0.60) = \6.30

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

69) You purchased 500 shares of stock for \$28.50 a share. The initial margin requirement is 65 percent and the maintenance margin is 35 percent. What is the maximum percentage decrease that can occur in the stock price before you receive a margin call?

- A) 35 percent
- B) 38 percent
- C) 46 percent
- D) 57 percent
- E) 62 percent

Answer: C

Explanation: $P^* = \{[500 \times \$28.50 \times (1 - 0.65)] / 500\} / (1 - 0.35) = \15.3462

Maximum percentage decline = $1 - (\$15.3462 / \$28.50) = 46$ percent

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

70) Nelson purchased 1,600 shares of stock for \$18.75 a share. The initial margin requirement is 70 percent and the maintenance margin is 40 percent. What is the maximum percent by which the stock price can decline before he receives a margin call?

- A) 30 percent
- B) 45 percent
- C) 50 percent
- D) 65 percent
- E) 70 percent

Answer: C

Explanation: $P^* = \{[1,600 \times \$18.75 \times (1 - 0.70)] / 1,600\} / (1 - 0.40) = \9.375

Maximum percentage decline = $1 - (\$9.375 / \$18.75) = 50$ percent

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

71) You purchase 500 shares of stock on margin at a cost per share of \$22. The initial margin requirement is 60 percent. The effective interest rate on the margin loan is 6.4 percent. How much interest will you pay if you repay the loan in four months?

- A) \$68.77
- B) \$91.93
- C) \$102.16
- D) \$112.38
- E) \$117.04

Answer: B

Explanation: $\text{Margin interest} = [(1 + 0.064)^{4/12} - 1] \times [500 \times \$22 \times (1 - 0.60)] = \91.93

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

72) Sarah purchased 600 shares of Detroit Motors stock at a price of \$60 a share. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. The effective interest rate on the margin loan is 6.5 percent. How much margin interest will she pay if she repays the loan in seven months?

- A) \$387.29
- B) \$404.12
- C) \$417.29
- D) \$530.42
- E) \$647.96

Answer: B

Explanation: $\text{Margin interest} = [(1 + 0.065)^{7/12} - 1] \times [600 \times \$60 \times (1 - 0.70)] = \404.12

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

73) Today, you are purchasing 100 shares of stock on margin. The purchase price per share is \$35. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. The call money rate is 4.5 percent and you are charged 1.6 percent over that rate. What will your rate of return be if you sell your shares one year from now for \$37 a share? Ignore dividends.

- A) 5.55 percent
- B) 6.42 percent
- C) 7.18 percent
- D) 7.49 percent
- E) 8.03 percent

Answer: A

Explanation: Initial investment = $(100 \times \$35 \times 0.70) = \$2,450$

Loan repayment = $[100 \times \$35 \times (1 - 0.70)] \times [1 + (0.045 + 0.016)]^1 = \$1,114.05$

Rate of return = $[(100 \times \$37) - \$1,114.05 - \$2,450] / \$2,450 = 5.55 \text{ percent}$

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

74) Seven months ago, you purchased 400 shares of stock on margin. The initial margin requirement on your account is 60 percent and the maintenance margin is 30 percent. The call money rate is 4.8 percent and you pay 1.85 percent above that rate. The purchase price was \$16 a share. Today, you sold these shares for \$18.00 each. What is your annualized rate of return?

- A) 26.15 percent
- B) 33.35 percent
- C) 42.77 percent
- D) 56.87 percent
- E) 64.64 percent

Answer: B

Explanation: Initial investment = $400 \times \$16 \times 0.60 = \$3,840$

Loan repayment = $[400 \times \$16 \times (1 - 0.60)] \times [1 + (0.048 + 0.0185)]^{7/12} = 2,657.97$

HPR = $[(400 \times \$18.00) - \$3,840 - \$2,657.97] / \$3,840 = 0.1828$

EAR = $(1 + 0.1828)^{12/7} - 1 = 33.35$ percent

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

75) Eight months ago, Freda purchased 500 shares of stock on margin at a price per share of \$35. The initial margin requirement on her account is 70 percent and the maintenance margin is 40 percent. The call money rate is 4.75 percent and she pays 2 percent above that rate. Today, she sold these shares for \$37.50 each. What is her annualized rate of return?

- A) 8.50 percent
- B) 10.61 percent
- C) 12.70 percent
- D) 14.90 percent
- E) 16.42 percent

Answer: C

Explanation: Initial investment = $500 \times \$35 \times 0.70 = \$12,250$

Loan repayment = $[500 \times \$35 \times (1 - 0.70)] \times [1 + (0.0475 + 0.02)]^{8/12} = \$5,483.67$

HPR = $[(500 \times \$37.50) - \$5,483.67 - \$12,250] / \$12,250 = 0.0830$

EAR = $(1 + 0.0830)^{12/8} - 1 = 12.70$ percent

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

76) Three months ago, Trevor purchased 500 shares of stock at a cost per share of \$64.20. The purchase was made on margin with an initial margin requirement of 65 percent. Trevor pays 1.6 percent over the call money rate of 4.8 percent. What will his total dollar return be on this investment if he sells his shares today at a price per share of \$63.40? Ignore dividends.

- A) -\$548.60
- B) -\$539.67
- C) -\$534.95
- D) -\$575.60
- E) -\$591.19

Answer: D

Explanation: Initial investment = $500 \times \$64.20 \times 0.65 = \$20,865$

Loan repayment = $[500 \times \$64.20 \times (1 - 0.65)] \times [1 + (0.016 + 0.048)]^{3/12} = \$11,410.00$

HPR = $[(500 \times \$63.40) - \$11,410.00 - \$20,865] = -\575.60

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

77) Robin sold 800 shares of a non-dividend paying stock this morning for a total of \$29,440. She had purchased these shares on margin nine months ago at a cost per share of \$35. The initial margin requirement on this stock is 60 percent and the maintenance margin is 30 percent. Robin pays 1.2 percent over the call money rate of 4.9 percent. What is her total dollar return on this investment?

- A) \$816.48
- B) \$897.29
- C) \$931.41
- D) \$1,164.93
- E) \$1,440.00

Answer: C

Explanation: Initial investment = $800 \times \$35 \times 0.60 = \$16,800$

Loan repayment = $[800 \times \$35 \times (1 - 0.60)] \times [1 + (0.012 + 0.049)]^{9/12} = \$11,708.59$

Holding period dollar return = $(\$29,440 - \$11,708.59 - \$16,800) = \931.41

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

78) You recently purchased 200 shares of stock at a cost per share of \$32.50. The initial margin requirement on this stock is 75 percent and the maintenance margin is 50 percent. The stock is currently valued at \$35.00 a share. What is your current margin position? Ignore margin interest.

- A) 73.01 percent
- B) 73.83 percent
- C) 74.95 percent
- D) 75.69 percent
- E) 76.79 percent

Answer: E

Explanation: $\text{Margin loan} = 200 \times \$32.50 \times (1 - 0.75) = \$1,625$

$\text{Current stock value} = 200 \times \$35.00 = \$7,000$

$\text{Current equity} = \$7,000 - \$1,625 = \$5,375$

$\text{Current margin} = \$5,375 / \$7,000 = 76.79 \text{ percent}$

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

79) You recently purchased 1,300 shares of stock at a cost per share of \$54.10. The initial margin requirement on this stock is 60 percent and the maintenance margin is 30 percent. The stock is currently valued at \$42.30 a share. What is your current margin position? Ignore margin interest.

- A) 46.91 percent
- B) 48.84 percent
- C) 63.05 percent
- D) 65.28 percent
- E) 78.18 percent

Answer: B

Explanation: $\text{Margin loan} = 1,300 \times \$54.10 \times (1 - 0.60) = \$28,132$

$\text{Current stock value} = 1,300 \times \$42.30 = \$54,990$

$\text{Current equity} = \$54,990 - \$28,132 = \$26,858$

$\text{Current margin} = \$26,858 / \$54,990 = 48.84 \text{ percent}$

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

80) Yvette recently purchased 500 shares of stock at a cost per share of \$43.50. The initial margin requirement on this stock is 75 percent and the maintenance margin is 40 percent. The stock is currently valued at \$44.75 a share. What is her current margin position? Ignore margin interest.

- A) 74.29 percent
- B) 74.78 percent
- C) 75.70 percent
- D) 76.03 percent
- E) 76.14 percent

Answer: C

Explanation: $\text{Margin loan} = 500 \times \$43.50 \times (1 - 0.75) = \$5,437.50$

$\text{Current stock value} = 500 \times \$44.75 = \$22,375$

$\text{Current equity} = \$22,375 - \$5,437.50 = \$16,937.50$

$\text{Current margin} = \$16,937.50 / \$22,375 = 75.70 \text{ percent}$

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

81) You short sold 700 shares of a stock at \$25 a share. The initial margin requirement is 75 percent and the maintenance margin is 35 percent. What is the amount of your total liability for this transaction as initially shown on your account balance sheet?

- A) \$8,640
- B) \$17,500
- C) \$22,210
- D) \$28,800
- E) \$37,440

Answer: B

Explanation: $\text{Liability} = 700 \times \$25 = \$17,500$

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

82) Elizabeth short sold 400 shares of stock at \$72 a share. One month later, she covered the short at a price of \$68. What was her total dollar return on this investment?

- A) -\$2,400
- B) -\$1,800
- C) -\$920
- D) \$1,600
- E) \$2,200

Answer: D

Explanation: Total dollar return = $400 \times (\$72 - \$68) = \$1,600$

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

83) Today, you short sold 1,100 shares of Jasper Industrial stock at \$48 a share. The initial margin is 60 percent and the maintenance margin is 30 percent. Which one of the following is correct concerning your account balance sheet for this transaction?

- A) You have an asset of \$31,680 from the sale proceeds.
- B) You have a liability from the short position of \$21,120.
- C) Your account equity is \$21,120.
- D) Your initial margin deposit is \$15,840.
- E) Your total assets are \$84,480.

Answer: E

Explanation: Total assets = $(1,100 \times \$48) + (1,100 \times \$48 \times 0.60) = \$84,480$

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

84) Mark short sold 500 shares of stock at \$12.50 a share. The initial margin is 80 percent and the maintenance margin is 50 percent. The stock is currently selling for \$9.80 a share. What is Matt's account equity at this time? Ignore margin interest.

- A) \$2,070
- B) \$4,590
- C) \$6,350
- D) \$8,950
- E) \$10,510

Answer: C

Explanation: Proceeds from sale = $500 \times \$12.50 = \$6,250$

Initial margin deposit = $500 \times \$12.50 \times 0.80 = \$5,000$

Short position = $500 \times \$9.80 = \$4,900$

Account equity = $\$6,250 + \$5,000 - \$4,900 = \$6,350$

Difficulty: 2 Medium

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

85) You short sold 500 shares of Jasper stock at \$41 a share at an initial margin of 60 percent. What is the highest the stock price can go before you receive a margin call if the maintenance margin is 40 percent?

- A) \$46.86
- B) \$47.08
- C) \$55.50
- D) \$56.90
- E) \$57.40

Answer: A

Explanation: $P^* = \{[(500 \times \$41) + (500 \times \$41 \times 0.60)] / 500\} / (1 + 0.40) = \46.86

Difficulty: 2 Medium

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

86) Jennifer believes that Northern Wine stock is going to decline in value so she is short selling 1,000 shares at \$32 a share. Her initial margin requirement is 70 percent and the maintenance margin is 30 percent. What is the highest the stock price can go before she receives a margin call?

- A) \$38.97
- B) \$40.15
- C) \$41.85
- D) \$43.75
- E) \$45.77

Answer: C

Explanation: $P^* = \{[(1,000 \times \$32) + (1,000 \times \$32 \times 0.70)] / 1,000\} / (1 + 0.30) = \41.85

Difficulty: 2 Medium

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

87) Mike short sold 400 shares of DeSoto Lumber stock at \$22 a share at an initial margin of 70 percent. The maintenance margin is 35 percent. What is the highest the stock price can go before he receives a margin call?

- A) \$24.12
- B) \$25.48
- C) \$26.22
- D) \$27.70
- E) \$28.16

Answer: D

Explanation: $P^* = \{[(400 \times \$22) + (400 \times \$22 \times 0.70)] / 400\} / (1 + 0.35) = \27.70

Difficulty: 2 Medium

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

88) The short interest on Blue Water Cruisers stock was 351,900 when the market opened this morning. During the day, 288,500 shares were covered and 151,600 shares were sold short. What was the short interest on this stock at the end of the trading day?

- A) 203,100 shares
- B) 215,000 shares
- C) 233,100 shares
- D) 308,100 shares
- E) 447,900 shares

Answer: B

Explanation: End of day short interest = $351,900 - 288,500 + 151,600 = 215,000$ shares

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

89) You just sold 1,200 shares of stock short at a price per share of \$13.50. The initial margin requirement is 60 percent and the maintenance margin is 30 percent. What is your initial equity position?

- A) \$6,480
- B) \$7,520
- C) \$9,720
- D) \$10,520
- E) \$16,200

Answer: C

Explanation: Proceeds from sale = $1,200 \times \$13.50 = \$16,200$

Initial margin deposit = $1,200 \times \$13.50 \times 0.60 = \$9,720$

Short position = $1,200 \times \$13.50 = \$16,200$

Account equity = $\$16,200 + \$9,720 - \$16,200 = \$9,720$

Difficulty: 2 Medium

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

90) Last week, you sold 300 shares of ABC stock for \$6,300. The sale was a short sale with an initial margin requirement of 70 percent. The maintenance margin is 40 percent. Some positive news concerning the company was released last night and the stock price jumped this morning to \$28 a share. What is your current margin position in this stock?

- A) 61.33 percent
- B) 56.67 percent
- C) 48.33 percent
- D) 38.68 percent
- E) 27.50 percent

Answer: E

Explanation: Proceeds from sale = \$6,300

Initial margin deposit = $\$6,300 \times 0.70 = \$4,410$

Short position = $300 \times \$28 = \$8,400$

Account equity = $\$6,300 + \$4,410 - \$8,400 = \$2,310$

Margin position = $\$2,310 / \$8,400 = 27.50$ percent

Difficulty: 2 Medium

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

91) Recently, you sold 1,000 shares of stock for \$21,400. The sale was a short sale with an initial margin requirement of 60 percent. The maintenance margin is 30 percent. The stock is currently trading at \$27.50 a share. What is your current margin position in this stock?

- A) 24.51 percent
- B) 28.11 percent
- C) 32.09 percent
- D) 43.98 percent
- E) 46.69 percent

Answer: A

Explanation: Proceeds from sale = \$21,400

Initial margin deposit = $\$21,400 \times 0.60 = \$12,840$

Short position = $1,000 \times \$27.50 = \$27,500$

Account equity = $\$21,400 + \$12,840 - \$27,500 = \$6,740$

Margin position = $\$6,740 / \$27,500 = 24.51$ percent

Difficulty: 2 Medium

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

92) Recently, you sold 500 shares of stock for \$16.60 a share. The sale was a short sale with an initial margin requirement of 70 percent. The maintenance margin is 35 percent. The stock is currently trading at \$17.80 a share. What is your current short position in this stock?

- A) \$4,916
- B) \$6,830
- C) \$8,900
- D) \$10,362
- E) \$11,976

Answer: C

Explanation: Short position = $500 \times \$17.80 = \$8,900$

Difficulty: 1 Easy

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

93) Neshoba Industries stock is selling for \$33 a share. You would like to purchase as many shares of this stock as you can. Your margin account currently has available cash of \$7,000 and the initial margin requirement is 65 percent. What is the maximum number of shares you can buy?

- A) 193 shares
- B) 287 shares
- C) 300 shares
- D) 326 shares
- E) 408 shares

Answer: D

Explanation: $\text{Maximum purchase} = \$7,500 / 0.65 = \$10,769.23$

$\text{Maximum number of shares} = \$10,769.23 / \$33 = 326 \text{ shares, rounded down to the last full share}$

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

94) Sam is purchasing 800 shares of RPT, Inc., stock at a price per share of \$15.50. What is the minimum amount the Federal Reserve will require Sam to pay in cash for this purchase?

- A) \$4,488
- B) \$6,200
- C) \$9,800
- D) \$10,968
- E) \$11,960

Answer: B

Explanation: $\text{Minimum cash required} = 0.50 \times 800 \times \$15.50 = \$6,200$

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

95) Louis purchased 300 shares of stock on margin for \$22.15 a share and sold the shares eleven months later for \$24.50 a share. The initial margin requirement was 75 percent and the maintenance margin was 30 percent. The interest rate on the margin loan was 8.5 percent. He received no dividend income. What was his holding period return?

- A) 7.05 percent
- B) 8.45 percent
- C) 9.88 percent
- D) 10.76 percent
- E) 11.56 percent

Answer: E

Explanation: Initial investment = $300 \times \$22.15 \times 0.55 = \$4,983.75$

Loan repayment = $[300 \times \$22.15 \times (1 - 0.75)] \times (1.085)^{11/12} = \$1,790.24$

HPR = $[(300 \times \$24.50) - \$1,790.24 - \$4,983.75] / \$4,983.75 = 11.56 \text{ percent}$

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

96) Marcia purchased 100 shares of Hyde Foods stock on margin at a price of \$35 a share. The initial margin requirement is 65 percent and the maintenance margin is 35 percent. What is the lowest the stock price can go before Marcia receives a margin call?

- A) \$18.85
- B) \$24.50
- C) \$28.00
- D) \$30.00
- E) \$33.00

Answer: A

Explanation: $P^* = \{[100 \times \$35 \times (1 - 0.65)] / 100\} / (1 - 0.35) = \18.85

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

97) Sarah purchased 700 shares of Detroit Motors stock at a price of \$45 a share. The initial margin requirement is 70 percent and the maintenance margin is 30 percent. The effective interest rate on the margin loan is 6.5 percent. How much margin interest will she pay if she repays the loan in five months?

- A) \$187.29
- B) \$204.12
- C) \$217.29
- D) \$230.42
- E) \$251.25

Answer: E

Explanation: $\text{Margin interest} = [(1 + 0.065)^{5/12} - 1] \times [700 \times \$45 \times (1 - 0.70)] = \251.25

Difficulty: 1 Easy

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

98) You recently purchased 200 shares of stock at a cost per share of \$22.25. The initial margin requirement on this stock is 75 percent and the maintenance margin is 50 percent. The stock is currently valued at \$24.00 a share. What is your current margin position? Ignore margin interest.

- A) 73.01 percent
- B) 73.83 percent
- C) 74.95 percent
- D) 75.69 percent
- E) 76.82 percent

Answer: E

Explanation: $\text{Margin loan} = 200 \times \$22.25 \times (1 - 0.75) = \$1,112.50$

$\text{Current stock value} = 200 \times \$24.00 = \$4,800$

$\text{Current equity} = \$4,800 - \$1,112.50 = \$3,687.50$

$\text{Current margin} = \$3,687.50 / \$4,800 = 76.82 \text{ percent}$

Difficulty: 2 Medium

Section: 2.3 Types of Accounts

Topic: Margin

Learning Objective: 02-03 How to trade on margin, including calculating the initial and maintenance margins.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

99) Rylee short sold 600 shares of stock at \$16.25 a share. The initial margin is 75 percent and the maintenance margin is 50 percent. The stock is currently selling for \$19.50 a share. What is Rylee's account equity at this time? Ignore margin interest.

- A) \$1,070.75
- B) \$3,590.25
- C) \$5,362.50
- D) \$8,950.00
- E) \$10,510.35

Answer: C

Explanation: $\text{Proceeds from sale} = 600 \times \$16.25 = \$9,750$

$\text{Initial margin deposit} = 600 \times \$16.25 \times 0.75 = \$7,312.50$

$\text{Short position} = 600 \times \$19.50 = \$11,700$

$\text{Account equity} = \$9,750 + \$7,312.50 - \$11,700 = \$5,362.50$

Difficulty: 2 Medium

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation

100) Last week, you sold 800 shares of Ace stock for \$24,000. The sale was a short sale with an initial margin requirement of 70 percent. The maintenance margin is 40 percent. Some positive news concerning the company was released last night and the stock price jumped this morning to \$35 a share. What is your current margin position in this stock?

- A) 61.33 percent
- B) 56.67 percent
- C) 45.71 percent
- D) 38.68 percent
- E) 27.50 percent

Answer: C

Explanation: Proceeds from sale = \$24,000

Initial margin deposit = $\$24,000 \times 0.70 = \$16,800$

Short position = $800 \times \$35 = \$28,000$

Account equity = $\$24,000 + \$16,800 - \$28,000 = \$12,800$

Margin position = $\$12,800 / \$28,000 = 45.71$ percent

Difficulty: 2 Medium

Section: 2.4 Types of Positions

Topic: Short sales

Learning Objective: 02-04 The workings of short sales.

Bloom's: Level 3 Apply

Accessibility: Keyboard Navigation