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**QUESTION 1**

You are considering two mutually exclusive investment proposals, project A and project B. B's expected value of net present value is \$1,000 less than that for A and A has less dispersion. On the basis of risk and return, you would say that

- A. Project A dominates project B
- B. Project B dominates project A
- C. Project A is more risky and should offer greater expected value
- D. Each project is high on one variable, so the two are basically equal

Correct Answer: A

QUESTION 2

The call-option value of a callable bond is likely to be high when:

- A. Interest rates are volatile
- B. Interest rates are low and expected to remain low
- C. Interest rates are high and expected to remain high
- D. Markets are inefficient

Correct Answer: A

QUESTION 3

Leverage ratios are designed to:

- A. Measure a company's capital structure
- B. Measure the quality of a company's operation
- C. Measure a company's ability to cover its short term obligations
- D. Measure the percentage of earnings paid to shareholders

Correct Answer: A

QUESTION 4

To say that there is "asymmetric information" in the issuing of common stock or debt means that:

- A. Investors have nearly perfect information



- B. The markets have nearly perfect information
- C. Investors have more accurate information than management has
- D. Management has more accurate information than investors have

Correct Answer: D

QUESTION 5

When policy periods expire, the premiums written are earned and are recognized as _____.

- A. Liabilities
- B. Expenses
- C. Revenues
- D. None of the above

Correct Answer: C

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