Cut along each dashed line, fold along the centre so the answer is on the back. Answer aloud, then flip.

Q1 Module 1.1 · RBei Classes

Financial assets vs instruments vs indicators?

A1

Assets: items of value you can own (cash, equity, debt, hybrids). **Instruments**: standardized ways to trade them (securities, derivatives). **Indicators**: measures that generate no cash flows (rates, FX, indexes).

Q2 Module 1.1 · RBei Classes

What are the two sources of return?

A2

Price change (price / capital appreciation return) and **cash income** (capital distribution return). Total return = the sum.

Q3 Module 1.1 · RBei Classes

€20 stock rises to €22 and pays €1. Price, distribution and total return?

A3

Price 10%, distribution 5%, total **15%** — all divided by the beginning price €20.

Q4 Module 1.1 · RBei Classes

What is the distribution return called for a stock and for a bond?

A4

Dividend yield for equity; **current yield** for a fixed-income security.

Q5 Module 1.1 · RBei Classes

Ex post vs ex ante return?

A5

Ex post = actual return from past prices and income. **Ex ante** = expected return for a future period. Their difference is the idea of risk.

Q6 Module 1.1 · RBei Classes

Realized vs unrealized return? Why does it matter?

A6

Realized = based on cash received; unrealized = based on current price of an asset still held. Gains are usually **taxed when realized**.

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Q7 Module 1.1 · RBei Classes

Arithmetic vs geometric mean: which is larger, and why?

A7

Geometric ≤ arithmetic (arithmetic–geometric mean inequality). Equal only if all returns are the same; gap grows with variability.

Q8 Module 1.1 · RBei Classes

$1,000 loses 25% then gains 25%. Arithmetic and geometric mean?

A8

Arithmetic **0%** (misleading). Geometric $\sqrt{(0.75 \times 1.25)} - 1 =$ **−3.175%**; ending value $937.50.

Q9 Module 1.1 · RBei Classes

Why is the arithmetic mean misleading over several periods?

A9

It assumes the amount invested stays the same. In reality gains and losses change the base.

Q10 Module 1.1 · RBei Classes

How do you annualize a 90-day return of 0.75%?

A10

$(1.0075)^{365/90} - 1 =$ **3.08%**. Compound — don't multiply.

Q11 Module 1.1 · RBei Classes

Can you annualize a return over more than one year?

A11

Yes. 500-day return 3.09%: $(1.0309)^{365/500} - 1 =$ **2.25%**.

Q12 Module 1.1 · RBei Classes

Four 6-month returns: which root for the per-period mean and which for the annual return?

A12

Per-period geometric mean: **4th** root (periods). Annual return: **2nd** root (years).

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Q13 Module 1.1 · RBei Classes

Monthly 0.5%, quarterly 1.5%, semiannual 3.0%: which is highest annualized?

A13

6.17% vs 6.14% vs 6.09% → the **monthly** security. Formula $(1 + r)^{c} - 1$.

Q14 Module 1.1 · RBei Classes

What is a continuously compounded return?

A14

The limit of compounding ever more often. $R_{cc} = \ln(1 + r) = \ln(\text{end/begin})$. \$100 → \$120: **18.232%**.

Q15 Module 1.1 · RBei Classes

What special property do continuously compounded returns have?

A15

They are **additive**: 13.976% + 8.338% = 22.314% for 1,000 → 1,150 → 1,250.

Q16 Module 1.1 · RBei Classes

Lose 3% over 120 days. Annualized return?

A16

$(0.97)^{365/120} - 1 =$ **−8.85%**.

Q17 Module 1.2 · RBei Classes

Give three interpretations of an interest rate.

A17

Required rate of return, **discount rate**, and **opportunity cost** of current consumption.

Q18 Module 1.2 · RBei Classes

What is the real risk-free rate?

A18

A rate with no expected inflation and no default risk — it reflects pure **time preference**.

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Q19 Module 1.2 · RBei Classes

Why is a T-bill rate a nominal, not real, risk-free rate?

A19

It contains an **inflation premium**. (1 + nominal) = (1 + real)(1 + inflation).

Q20 Module 1.2 · RBei Classes

An interest rate with the inflation premium removed is…?

A20

A **real** interest rate — not necessarily risk-free, since risk premiums may remain.

Q21 Module 1.2 · RBei Classes

Name the risk premia for bonds and for stocks.

A21

Bonds: **default, liquidity, maturity**. Stocks: **size, value**. Later: the market risk premium.

Q22 Module 1.2 · RBei Classes

Why do longer bonds need a maturity risk premium?

A22

Their prices are **more sensitive** to interest rate changes than shorter bonds.

Q23 Module 1.2 · RBei Classes

7% nominal return, 2% inflation. Approximate and exact real return?

A23

Approx 7 - 2 = 5%. Exact 1.07/1.02 - 1 = **4.9%**.

Q24 Module 1.2 · RBei Classes

What is excess return?

A24

Return relative to a benchmark or reference rate. 8% vs 3%: approx 5%, exact 1.08/1.03 - 1 = **4.85%**.

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Q25 Module 1.2 · RBei Classes

Gross return vs net return?

A25

Gross = after transaction costs, before management fees. **Net** = after management and administrative fees too.

Q26 Module 1.2 · RBei Classes

A 5% increase before commissions and fees is…?

A26

Neither gross nor net return — gross return already deducts commissions.

Q27 Module 1.2 · RBei Classes

$160 → $200, $8 dividend, 25% CGT, 40% dividend tax. After-tax return?

A27

25%(0.75) + 5%(0.60) = **21.75%** (pretax 30%).

Q28 Module 1.2 · RBei Classes

Write the leveraged return formula.

A28

$[r_P(V_E + V_D) - r_D V_D] / V_E$. $800m + $200m at 5%: 8% → 8.75%.

Q29 Module 1.2 · RBei Classes

What is the key lesson about leverage?

A29

It **magnifies losses as well as gains**: -4% unleveraged becomes -6.25%. Derivatives are also leveraged.

Q30 Module 1.2 · RBei Classes

What is the market risk premium?

A30

Return on the market portfolio of all risky assets **minus** the risk-free rate.

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