

Chapter 3 - Practice Questions

1. A purchase of a new issue of stock takes place
 - A) in the secondary market.
 - B) in the primary market.
 - C) usually with the assistance of an investment banker.
 - D) A and B.
 - E) B and C.

2. You purchased 100 shares of ABC common stock on margin at \$70 per share. Assume the initial margin is 50% and the maintenance margin is 30%. Below what stock price level would you get a margin call? Assume the stock pays no dividend; ignore interest on margin.
 - A) \$21
 - B) \$50
 - C) \$49
 - D) \$80
 - E) none of the above

3. Assume you sell short 100 shares of common stock at \$45 per share, with initial margin at 50%. What would be your rate of return if you repurchase the stock at \$40/share? The stock paid no dividends during the period, and you did not remove any money from the account before making the offsetting transaction.
 - A) 20%
 - B) 25%
 - C) 22%
 - D) 77%
 - E) none of the above

4. You purchased 1000 shares of common stock on margin at \$30 per share. Assume the initial margin is 50% and the stock pays no dividend. What would the maintenance margin be if a margin call is made at a stock price of \$24? Ignore interest on margin.
 - A) 0.33
 - B) 0.375
 - C) 0.20
 - D) 0.23
 - E) 0.25

5. You sold short 300 shares of common stock at \$55 per share. The initial margin is 60%. At what stock price would you receive a margin call if the maintenance margin is 35%?
- A) \$51
 - B) \$65
 - C) \$35
 - D) \$40
 - E) none of the above
6. You want to buy 100 shares of Hotstock Inc. at the best possible price as quickly as possible. You would most likely place a
- A) stop-loss order
 - B) stop-buy order
 - C) market order
 - D) limit-sell order
 - E) limit-buy order
7. You want to purchase XYZ stock at \$60 from your broker using as little of your own money as possible. If initial margin is 50% and you have \$3000 to invest, how many shares can you buy?
- A) 100 shares
 - B) 200 shares
 - C) 50 shares
 - D) 500 shares
 - E) 25 shares
8. You purchased 100 shares of common stock on margin for \$35 per share. The initial margin is 50% and the stock pays no dividend. What would your rate of return be if you sell the stock at \$42 per share? Ignore interest on margin.
- A) 28%
 - B) 33%
 - C) 14%
 - D) 40%
 - E) 24%
9. Assume you sold short 100 shares of common stock at \$40 per share. The initial margin is 50%. What would be the maintenance margin if a margin call is made at a stock price of \$50?
- A) 40%
 - B) 20%
 - C) 35%
 - D) 25%
 - E) none of the above

Answer Key

1. E
2. B
3. C
4. B
5. B
6. C
7. A
8. D
9. B