

Final Exam Review

Maria Segovia purchased 100 shares of JAX stock for \$30 per share and sold this same stock three years later for \$35 per share. She paid commissions of \$50 when she purchased the stock and \$45 when she sold the stock. Dividends of \$2 per share were paid each year. Use this information to answer the following three questions.

1. The total dollar return on this stock transaction was

$$\begin{aligned}\text{Sell price} &= 35 * 100 = 3,500 - 45 = 3,455 \\ \text{Dividends} &= 2 * 100 * 3 = 600 \\ \text{Purchase price} &= 30 * 100 = 3,000 + 50 = 3,050\end{aligned}$$

$$3,455 + 600 - 3,050 =$$

- a. \$405
- b. \$3455
- c. \$605
- d. \$1005

2. What is your total cumulative return (in percent) over the 3-year period?

$$\begin{aligned}& ((\text{Sell price} + \text{dividends}) / (\text{purchase price}) - 1) \\ & (3,455 + 600) / 3,050 = 1.32 - 1\end{aligned}$$

- a. 32.95%
- b. 19.84%
- c. 13.28%
- d. 44.50%

3. What is your average annual percentage return over the three year period?

$$\begin{aligned}\text{PV} &= -3050 \\ \text{FV} &= 3455 \\ \text{N} &= 3 \text{ years} \\ \text{Pmt} &= 200 \text{ YEARLY!!!!} \\ \text{I} &= \end{aligned}$$

- a. 23.2%
- b. 11.6%
- c. 10.5%
- d. 9.3%

4. Assume you are in the 28% marginal tax bracket, dividends and long term capital gains will be subject to a 15% tax rate. What is your after tax average annual return?

$$\text{Capital gain} = 3455 - 3050 = 405 * .15 = 60.75$$
$$200(1 - .15) = 170$$

- a. 10.5%
 - b. 9.02%**
 - c. 5.5%
 - d. 4.3%
5. If inflation averaged 3.4% per year over the three year period, the average annual after-tax real rate of return would be?

$$1 + .0902 / 1 + .034 = 1.0544 - 1 = 5.4$$

- a. 5.4%**
- b. 6.9%
- c. 2.0%
- d. 0.87%

Bonds	Cur Yld	Vol	Close	Net Chg
Mobile 8s33	8.2	53		+3 1/8

Use the above information to answer the next five questions.

22. What year does the bond mature?

- a. 2033
- b. 2008
- c. 2009
- d. 2040

23. What is the bond's annual coupon payment?

- a. \$32
- b. \$80
- c. \$8
- d. \$82

24. What is the bond's closing price?

- a. \$970.00
- b. \$975.61
- c. \$1,000.00
- d. \$1,100.13

25. What was yesterday's closing price?

- a. \$1,006.86
- b. \$1,001.25
- c. \$938.75
- d. \$944.36

26. What is the bond's YTM?

8.2%