

Problem Set #2

1. An index computed from a simple average of returns is a/an \_\_\_\_\_.
  - A. equal weighted index
  - B. value weighted index
  - C. price weighted index
  - D. share weighted index
  
2. You decide to purchase an equal number of shares of stocks of firms to create a portfolio. If you wished to construct an index to track your portfolio performance your best match for your portfolio would be to construct a/an \_\_\_\_\_.
  - A. value weighted index
  - B. equal weighted index
  - C. price weighted index
  - D. bond price index
  
3. A benchmark market value index is comprised of three stocks. Yesterday the three stocks were priced at \$12, \$20, and \$60. The number of outstanding shares for each is 600,000 shares, 500,000 shares, and 200,000 shares, respectively. If the stock prices changed to \$16, \$18, and \$62 today respectively, what is the one day rate of return on the index?
  - A. 5.78%
  - B. 4.35%
  - C. 6.16%
  - D. 7.42%
  
4. A benchmark index has three stocks priced at \$23, \$43, and \$56. The number of outstanding shares for each is 350,000 shares, 405,000 shares, and 553,000 shares, respectively. If the market value weighted index was 970 yesterday and the prices changed to \$23, \$41, and \$58, what is the new index value?
  - A. 960
  - B. 970
  - C. 975
  - D. 985
  
5. Three stocks have share prices of \$12, \$75, and \$30 with total market values of \$400 million, \$350 million and \$150 million respectively. If you were to construct a price-weighted index of the three stocks what would be the index value?
  - A. 300
  - B. 39
  - C. 43
  - D. 30

6. In a \_\_\_\_\_ index changes in the value of the stock with the greatest market value will move the index value the most everything else equal.

- A. value weighted index
- B. equal weighted index
- C. price weighted index
- D. bond price index

7. The Standard and Poors 500 is a(n) \_\_\_\_\_ weighted index.

- A. equally
- B. price
- C. value
- D. share

8. The Hydro Index is a price weighted stock index based on the 5 largest boat manufacturers in the nation. The stock prices for the five stocks are \$10, \$20, \$80, \$50 and \$40. The price of the last stock was just split 2 for 1 and the stock price was halved from \$40 to \$20. What is the new divisor for a price weighted index?

- A. 5.00
- B. 4.85
- C. 4.50
- D. 4.75

9. The Chompers Index is a price weighted stock index based on the 3 largest fast food chains. The stock prices for the three stocks are \$54, \$23, and \$44. What is the price weighted index value of the Chompers Index?

- A. 23.43
- B. 35.36
- C. 40.33
- D. 49.58