

QUIZ 5

I . True or False

1. In the case of a leveraged lease, the lessor must provide a minimum of 20 percent equity.
2. An operating lease is a noncancelable agreement.
3. A financial lease is an agreement that provides the lessee with use of an asset on a period-by-period basis.
4. Conversion can occur in one of two ways: voluntary or exercised.
5. A company receives interest rate swaps at the time warrants are exercised.
6. The exercise price of a warrant is the price at which the holder can purchase common stock of the issuing company.
7. The longer the time remaining before the option expires, the higher the option value, all other things being equal.
8. The primary reason for issuing a warrant with a fixed-income security is that warrants tend to lower agency costs.
9. No market exists for rights because a market price is not established for them.
10. The market value of a convertible debt issue is usually above the conversion value.

II . Multiple Choice

1. The company rents a machine costing \$60,000. Rent is paid at the beginning of each year for 4 years. The yield rate is 10%. The annual rent is:
A. \$15,000
B. \$17,207
C. \$18,928
D. \$19,232
2. Which of the following is *not* a sensible reason for leasing, rather than buying, equipment?

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- A. Short-term leases are convenient.
- B. Leasing preserves capital.
- C. Maintenance is provided.
- D. Lower risk of equipment obsolescence.
3. In which type of lease arrangement are there three parties to the lease?
- A. A direct lease
- B. A full-payout lease
- C. A sale and lease back
- D. A leveraged lease
4. Which of the following conditions will *not* apply to a lease?
- A. A capital lease is regarded as debt financing.
- B. Lease payments are allowable as a deduction for tax purposes.
- C. The cost of the lease is calculated using the weighted-average cost of capital.
- D. With a capital lease, the lessee bears the risk of obsolescence over the lease period.
5. A \$500 par-value convertible debenture is selling at \$520. If the conversion ratio is 20, what is the conversion price?
- A. \$19.23
- B. \$20.18
- C. \$25.00
- D. \$26.00
6. A company has just issued convertible bonds with \$1,000 par value and a conversion ratio of 40. Which of the following is most likely to be the market price per share of the company's common stock at present?
- A. Under \$25.
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- B. \$25.
- C. Between \$25 and \$30.
- D. Above \$30.
7. If a warrant carries a right to buy one share of common stock and is exercisable at \$20 per common share while the market price of a share is \$30, the theoretical value of the warrant is:
- A. \$20.
- B. \$10.
- C. \$5.
- D. \$0.
8. The *call price* of a convertible bond is generally
- A. equal to the conversion ratio times the market price per share of common stock.
- B. greater than the face value of the bond.
- C. equal to the face value of the bond divided by the conversion ratio.
- D. equal to the value at maturity.
9. Which of the following securities contain option features?
- A. warrants, bond refunding, and preferred stocks
- B. short-term options convertible securities, and debentures
- C. warrants, bond refunding, and rights offering
- D. warrants, debentures, and convertible securities
10. Which of the following is not a variable that the value of a call option is dependent upon?
- A. level of interest rates
- B. conversion premium
- C. time remaining until the option's expiration date
- D. expected stock price volatility