

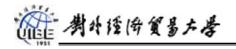
QUIZ 5

I. True or False

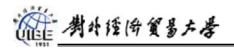
- 1. In the case of a leveraged lease, the lessor must provide a minimum of 20 percent equity.
- 2. An operating lease is a noncancelable agreement.
- 3. A financial lease is an agreement that provides the lessee with use of an asset on a period-by-period basis.
- 4. Conversion can occur in one of two 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

- 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?



- 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 in 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.



- 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