

Content: Problems and concept questions (T/F, completion, etc.).
 Format: 25 questions, 50 minutes, multiple-choice
 Bring: pencil, eraser, calculator, scan form (#19641), cheat-sheet

Chapter	Topic
Market Efficiency (EMH)	Degrees and implications of each What it really means to “beat the market” How new information is incorporated into prices How does market efficiency relate to equilibrium?
Interest Rates	Interest rate model (“layer-cake”) Determinants of real risk-free rate, nominal risk-free rate (Fisher Effect) Determinants of risk premium (spread): default risk, (il)liquidity, maturity Term structure/yield curve Theories: market segmentation, pure expectations, liquidity preference Forecasting interest rates
Bond Valuation	Cash flows: coupon payment, par value and call price, for annual and semi-annual bonds Who pays whom what? Calculate value at various market rates, for annual and semi-annual bonds Par, premium, discount PV of interest differentials Interest rate risk (price risk) and reinvestment rate risk (income risk) Calculate value at various dates (till maturity), for annual and semi-annual bonds Price-yield relationships Calculate yield to maturity, current yield, capital gains yield, yield to call for annual and semi-annual bonds
Stock Valuation	Distinguish common and preferred stock What are common shareholders actually buying? “Constant” dividend growth (Gordon) model : assumptions, applicability For constant (positive, zero, negative) growth common stock, calculate value of share and expected dividend yield, capital gains yield and total return For non-constant growth common stock, calculate value of share Preferred stock: calculate value, expected return Equilibrium: What conditions must hold? What happens if they do not?
Cost of Capital	Role of Weighted Average Cost of Capital (WACC)/Marginal Cost of Capital (MCC): investor’s required returns => firm’s cost => minimum acceptable return on new investment MCC is supply curve of new capital Target capital structure Calculate component costs: debt (after-tax), preferred, common (retained earnings & new shares) Calculate breakpoint(s) Calculate WACC(s) Limitations: “other things unchanged,” particularly risk