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