Quiz: 1/23/12 Name & Class Time Key

WSJ1: The Federal Reserve Bank of New York sold a multibillion-dollar parcel of risky mortgage bonds Thursday to a unit of Credit Suisse Group AG in its single-largest sale of troubled assets from the financial crisis. The bonds were part of a portfolio that the New York Fed took on as part of the 2008 bailout of

A. American International Group
b. Bank of America
c. General Motors
d. Fannie Mae
e. Apple

WSJ2: According to the Wall Street Journal, a growing number of Americans 75 and older are working or seeking work because they

a. earned too little to amass much savings
b. suffered financial losses
c. lived longer than they imagined
d. saw their savings depleted by bills and chronic illnesses
E. all of the above

WSJ3: WSJ3: Edward Lampert and shareholders of Sears Holdings Corp. aren't the only ones hoping for a turnaround of the big retailer. Goldman Sachs Group Inc. and some of its clients are sweating it out, too. Which of the following statements describe the Goldman investment?

a. Goldman clients invested $3.5 billion in Mr. Lampert's hedge fund
b. money invested in Mr. Lampert's hedge fund cannot be withdrawn until the end of the year
c. a sudden rebound in Sears this year puts Goldman and its clients in the black
d. Goldman invested $75 million of its own money in Mr. Lampert's hedge fund
E. all of the above

Quiz: Assume that risk-free bonds earn a return of 3.5% and that an investment today of $1000 in the market index fund will pay off either $1200 (strong economy) or $850 (weak economy) one year from today. Assume also that an investment of $720 today in SFNY Inc. will pay off either $925 (strong) or $575 (weak) on year from today. List <u>all transactions or events</u> and the <u>resulting cash flows</u> both <u>today</u> and <u>one year from today</u> that would generate an arbitrage profit today. Note: Feel free to create a table to answer this question.

No arbitrage price = 1000 – 275/1.035 = 1000 – 265.7 = 734.30

		CF(1)		
<u>Transaction</u>	<u>CF(0)</u>	<u>Strong</u>	<u>Weak</u>	<u>Explanation of CF(1)</u>
Buy SFNY	-$720	+925	+575	Payoff on SFNY
Short-sell Market	+1000	-1200	-850	Buy back market index to return to lender
<u>Buy risk-free bond</u>	<u>-265.70</u>	<u>+275</u>	<u>+275</u>	<u>Bond pays off</u>
Total	+14.30	0	0	