

Quiz

1. Which of the following are generally specified by a warrant?

- I. the price at which shares can be obtained
 - II. number of shares that can be obtained
 - III. the expiration date
 - IV. the number of shares to be received for each bond converted
- A. I and II only
 - B. III and IV only
 - C. I, II, and III only**
 - D. II, III, and IV only
 - E. I, II, III, and IV

2. Which one of the following gives the best description of a warrant from the holder's point of view?

- A. similar to a convertible bond but with a limited time period
- B. similar to a put option but with a shorter maturity
- C. similar to a put option but with a longer maturity
- D. similar to a call option but with a shorter maturity
- E. similar to a call option but with a longer maturity**

3. Generally speaking, warrants:

- A. are short-term call options that are attached to another security.
- B. are attached to another security but can be detached and traded separately.**
- C. add value to another security but have no value if detached from that security.
- D. can only be detached from another security after an extended period of time.
- E. can only be attached to publicly traded securities.

4. How is the lower limit on the price of a warrant defined?

- A. the exercise price minus the stock price
- B. the stock price minus the exercise price
- C. the greater of zero or the stock price minus the exercise price**
- D. the greater of zero or the exercise price minus the stock price
- E. the stock price

5. How is the upper limit on the price of a warrant defined?

- A. the exercise price
- B. the stock price**
- C. the exercise price minus the stock price
- D. the stock price minus the exercise price
- E. the greater of zero or the exercise price minus the stock price

6. Galaxy Interiors has 2,500 warrants outstanding. Each warrant grants its holder the right to purchase one share of Galaxy Interiors stock at a price of \$21.40 a share. Currently, Galaxy Interiors stock is selling at a market price of \$23.80 a share. What are the lower and upper limits on the warrant value?

- A. \$0; \$2.40
- B. \$0; \$21.40
- C. \$0; \$23.80
- D. \$2.40; \$21.40
- E. \$2.40; \$23.80**

7. Treetop, Inc. has 15,000 warrants outstanding. Each warrant grants its owner the right to purchase one share of Treetop stock at a price of \$31.65 a share. Some disappointing news was just released concerning Treetop. As a result, Treetop stock is currently selling for \$24.30 a share. What are the lower and upper limits on the warrant value?

- A. \$0; \$24.30
- B. \$0; \$31.65
- C. \$7.35; \$24.30
- D. \$7.35; \$31.65
- E. \$24.30; \$31.65

8. Carolina Mills has warrants outstanding that grant the holder the right to purchase two shares of stock at an exercise price of \$22 a share. The stock of Carolina Mills is currently selling for \$24.60 a share. What is the minimum value of one warrant?

- A. \$1.30
- B. \$2.60
- C. \$3.40
- D. \$4.80
- E. \$5.20

9. Olsen & Myers has warrants outstanding that grant the holder the right to purchase three shares of stock at an exercise price of \$13 a share. Olsen & Myers stock is currently selling for \$12.80 a share. What is the minimum value of one warrant?

- A. -\$0.60
- B. -\$0.20
- C. \$0.00
- D. \$0.20
- E. \$0.60

10. Which of the following affect the value of a warrant?

- I. time to expiration
- II. variance of the issuer's stock returns
- III. stock market rate of return
- IV. risk-free rate of return

- A. I and II only
- B. II and III only
- C. II and IV only
- D. I, II, and IV only
- E. I, II, III, and IV