

NAME: _____

BEM 103 QUIZ 11

1. *Mortgages are put options because*

- A. They are insured by the government
- B. The borrower can always let the lender take over the collateral**
- C. They have a balloon payment structure
- D. The loan to value ratio can go negative

2. *Firm have been increasing their leverage in the last thirty years*

- A. Because taxes on interest are less than on dividends
- B. Because they want to incentivize management
- C. Because the rate of interest has been falling faster than the price of risk
- D. All of the above**

3. *When choosing how to fund a project management issues debt*

- A. May do so to signal that it is very risk averse about the project
- B. May do so because it will help incentivize important employees
- C. Because it is a good way to fund intangible capital
- D. None of the above**

4. *Is the fact that a whole turkey cost less than either dark meat or white meat a violation of value additivity?* _____

_____ the thanksgiving question _____

_____ *Its not a violation of value additivity because in the case of turkey some people strictly prefer dark meat to white meat and vice versa so splitting the turkey increases its value.*

_____ *It is a violation of value additivity because under competition the price either dark and white meat should fall so that on average prices are equal (the consumers not the producers should get the gains from the division.*
