|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. ​Financial market participants who provide funds are called

|  |  |  |
| --- | --- | --- |
|   | a.  | ​deficit units. |
|   | b.  | ​surplus units. |
|   | c.  | ​primary units. |
|   | d.  | ​secondary units. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. Which of the following is NOT an issuer of bonds?

|  |  |  |
| --- | --- | --- |
|   | a.  | households |
|   | b.  | corporations |
|   | c.  | the U.S. Treasury |
|   | d.  | government agencies |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. ​Behavioral finance

|  |  |  |
| --- | --- | --- |
|   | a.  | ​applies concepts from sociology and anthropology to the behavior of market participants. |
|   | b.  | ​studies the behavior of financial markets in response to changes in Federal Reserve policy.  |
|   | c.  | ​applies psychology to financial decision making. |
|   | d.  | ​explains why markets are efficient. |

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| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. The financial markets that facilitate the flow of short-term funds are known as

|  |  |  |
| --- | --- | --- |
|   | a.  | money markets. |
|   | b.  | capital markets. |
|   | c.  | primary markets. |
|   | d.  | secondary markets. |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. Funds are provided to the initial issuer of securities in the

|  |  |  |
| --- | --- | --- |
|   | a.  | secondary market. |
|   | b.  | primary market. |
|   | c.  | deficit market. |
|   | d.  | surplus market. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. ​Which of the following is a capital market instrument?

|  |  |  |
| --- | --- | --- |
|   | a.  | ​a six-month certificate of deposit |
|   | b.  | ​a three-month Treasury bill |
|   | c.  | ​a ten-year bond |
|   | d.  | ​an agreement for a bank to loan funds directly to a company for nine months |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. ​Which of the following is a money market security?

|  |  |  |
| --- | --- | --- |
|   | a.  | ​Treasury note |
|   | b.  | ​municipal bond |
|   | c.  | ​mortgage |
|   | d.  | ​commercial paper |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. The creditors in the federal funds market are

|  |  |  |
| --- | --- | --- |
|   | a.  | households. |
|   | b.  | depository institutions. |
|   | c.  | firms. |
|   | d.  | government agencies. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. ​Investors in equity securities may earn a return from

|  |  |  |
| --- | --- | --- |
|   | a.  | ​coupon payments and the return of principal at the maturity date. |
|   | b.  | ​coupon payments and a capital gain when they sell the securities. |
|   | c.  | ​quarterly dividends (if paid) and a capital gain when they sell the securities. |
|   | d.  | ​quarterly dividends (if paid) and the return of principal at the maturity date. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. Money market securities generally have \_\_\_\_.

|  |  |  |
| --- | --- | --- |
|   | a.  | relatively low liquidity, low expected return, and a high degree of credit risk |
|   | b.  | relatively high liquidity, high expected return, and a high degree of credit risk |
|   | c.  | relatively low liquidity, high expected return, and a low degree of credit risk |
|   | d.  | relatively high liquidity, low expected return, and a low degree of credit risk |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. If security prices fully reflect all available information, the markets for these securities are

|  |  |  |
| --- | --- | --- |
|   | a.  | efficient. |
|   | b.  | primary. |
|   | c.  | overvalued. |
|   | d.  | undervalued. |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. ​If markets are \_\_\_\_, investors could use available information ignored by the market to earn abnormally high returns.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​perfect |
|   | b.  | ​active |
|   | c.  | ​inefficient |
|   | d.  | ​in equilibrium |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 13. If financial markets are efficient, this implies that all securities should earn the same return.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| 14. The Securities Act of 1933

|  |  |  |
| --- | --- | --- |
|   | a.  | required complete disclosure of relevant financial information for publicly offered securities in the primary market. |
|   | b.  | declared trading strategies to manipulate the prices of public secondary securities illegal. |
|   | c.  | imposed heavy penalties for insider trading. |
|   | d.  | required complete disclosure of relevant financial information for securities traded in the secondary market. |
|   | e.  | All of these are correct. |

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| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. The Securities and Exchange Commission (SEC) was established by the

|  |  |  |
| --- | --- | --- |
|   | a.  | Federal Reserve Act. |
|   | b.  | McFadden Act. |
|   | c.  | Securities Exchange Act of 1934. |
|   | d.  | Glass-Steagall Act. |
|   | e.  | None of these are correct. |

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| --- | --- |
| *ANSWER:* | c |

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| 16. Stock issued by a corporation is an example of a(n)

|  |  |  |
| --- | --- | --- |
|   | a.  | debt security. |
|   | b.  | money market security. |
|   | c.  | equity security. |
|   | d.  | debt security AND money market security. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 17. ​If financial markets were \_\_\_\_, all information about any securities for sale in primary and secondary markets would be continuously and freely available to investors.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​efficient |
|   | b.  | ​inefficient |
|   | c.  | ​perfect |
|   | d.  | ​imperfect |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 18. Which of the following is NOT a typical function of securities firms?

|  |  |  |
| --- | --- | --- |
|   | a.  | provide brokerage services |
|   | b.  | provide underwriting services |
|   | c.  | accept deposits that are insured by the federal government and use the funds to provide loans to corporations  |
|   | d.  | offer advice on mergers and other corporate restructurings |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 19. ​Without the participation of financial intermediaries in financial market transactions,

|  |  |  |
| --- | --- | --- |
|   | a.  | ​information and transaction costs would be lower. |
|   | b.  | ​transaction costs would be higher but information costs would be unchanged. |
|   | c.  | ​information costs would be higher but transaction costs would be unchanged. |
|   | d.  | ​information and transaction costs would be higher. |

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| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20. ​Which of the following is most likely to be described as a depository institution?

|  |  |  |
| --- | --- | --- |
|   | a.  | ​finance companies |
|   | b.  | ​securities firms |
|   | c.  | ​credit unions |
|   | d.  | ​pension funds |
|   | e.  | ​insurance companies |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. ​In aggregate, \_\_\_\_ are the most dominant depository institution, with more total assets than other depository institutions.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​commercial banks |
|   | b.  | ​savings banks |
|   | c.  | ​credit unions |
|   | d.  | ​S&Ls |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. Which of the following is a nondepository financial institution?

|  |  |  |
| --- | --- | --- |
|   | a.  | savings bank |
|   | b.  | commercial bank |
|   | c.  | savings and loan association |
|   | d.  | mutual fund |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. ​Which of the following distinguishes credit unions from commercial banks and savings institutions?

|  |  |  |
| --- | --- | --- |
|   | a.  | ​Credit unions are nonprofit. |
|   | b.  | ​Credit unions accept deposits but do not make loans. |
|   | c.  | ​Credit unions make loans but do not accept deposits. |
|   | d.  | ​Savings institutions restrict their business to members who share a common bond. |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. ​When a securities firm acts as a broker, it

|  |  |  |
| --- | --- | --- |
|   | a.  | ​guarantees the issuer a specific price for newly issued securities. |
|   | b.  | ​makes a market in specific securities by adjusting its own inventory. |
|   | c.  | ​executes securities transactions between two parties. |
|   | d.  | ​purchases securities for its own account. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. When a securities firm acts as a(n) \_\_\_\_, it makes a market in specific securities by maintaining an inventory of those securities.

|  |  |  |
| --- | --- | --- |
|   | a.  | adviser |
|   | b.  | dealer |
|   | c.  | broker |
|   | d.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. ​\_\_\_\_ obtain funds by issuing securities and then lend the funds to individuals and small businesses.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​Finance companies |
|   | b.  | ​Securities firms |
|   | c.  | ​Mutual funds |
|   | d.  | ​Insurance companies |

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| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. ​Households with \_\_\_\_ are served by \_\_\_\_.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​deficient funds; depository institutions and finance companies |
|   | b.  | ​deficient funds; finance companies only |
|   | c.  | ​savings; finance companies only |
|   | d.  | ​savings; pension funds and finance companies |

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| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. ​\_\_\_\_ concentrate on mortgage loans.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​Finance companies |
|   | b.  | ​Commercial banks |
|   | c.  | ​Savings institutions |
|   | d.  | ​Credit unions |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. ​\_\_\_\_ securities have a maturity of one year or less; \_\_\_\_ securities generally have relatively high liquidity.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​Money market; capital market |
|   | b.  | ​Money market; money market |
|   | c.  | ​Capital market; money market |
|   | d.  | ​Capital market; capital market |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. Which of the following are NOT major investors in stocks?

|  |  |  |
| --- | --- | --- |
|   | a.  | commercial banks |
|   | b.  | insurance companies |
|   | c.  | mutual funds |
|   | d.  | pension funds |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. Which of the following financial intermediaries commonly invest in stocks and bonds?

|  |  |  |
| --- | --- | --- |
|   | a.  | pension funds |
|   | b.  | insurance companies |
|   | c.  | mutual funds |
|   | d.  | All of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 32. Securities represent a claim on the issuer.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. Debt securities represent debt (borrowed funds) incurred by the issuer.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. A five-year security was purchased two years ago by an investor who plans to resell it. The investor will sell the security in the

|  |  |  |
| --- | --- | --- |
|   | a.  | secondary market. |
|   | b.  | primary market. |
|   | c.  | deficit market. |
|   | d.  | surplus market. |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. When security prices fully reflect all available information, the markets for these securities are said to be efficient.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 36. If markets are perfect, securities buyers and sellers do not have full access to information and cannot always break down securities to the precise size they desire.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. A broker executes securities transactions between two parties and charges a commission for the transaction.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38. The adoption of the euro by 19 European countries has increased business between those countries and created a more competitive environment in Europe.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. In recent years, financial institutions have consolidated to capitalize on economies of scale and on economies of scope.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. Securities represent a claim on the provider of funds.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. Debt securities include commercial paper, Treasury bonds, and corporate bonds.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. Common types of capital market securities include Treasury bills and commercial paper.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. Common types of money market securities include negotiable certificates of deposit and Treasury bills.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. Money market securities are commonly issued to finance the purchase of assets such as buildings, equipment, or machinery.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. The total asset value of savings institutions is larger than that of commercial banks.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. Financial markets facilitating the flow of short-term debt securities with maturities of one year or less are known as

|  |  |  |
| --- | --- | --- |
|   | a.  | secondary markets. |
|   | b.  | capital markets. |
|   | c.  | primary markets. |
|   | d.  | money markets. |
|   | e.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 47. Which of the following transactions would NOT be considered a secondary market transaction?

|  |  |  |
| --- | --- | --- |
|   | a.  | An individual investor purchases some existing shares of stock in Apple through her broker. |
|   | b.  | An institutional investor sells some Disney stock through its broker. |
|   | c.  | A firm that was privately held engages in an offering of stock to the public. |
|   | d.  | All of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 48. ​If investors speculate in the underlying asset rather than in derivative contracts on the underlying asset, they will probably achieve \_\_\_\_ returns, and they are exposed to relatively \_\_\_\_ risk.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​lower; lower |
|   | b.  | ​lower; higher |
|   | c.  | ​higher; lower |
|   | d.  | ​higher; higher |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| 49. \_\_\_\_ maintain a larger amount of assets in aggregate than the other types of nondepository institutions.

|  |  |  |
| --- | --- | --- |
|   | a.  | Finance companies |
|   | b.  | Mutual funds |
|   | c.  | Life insurance companies |
|   | d.  | Securities firms |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 50. An asymmetric information problem arises when one party to a transaction has information that is not available to the other party, as when a corporation fails to tell investors the full extent of its losses.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 51. ​Bonds issued by corporations have a \_\_\_\_ expected return and \_\_\_\_ risk than Treasury bonds.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​lower; lower |
|   | b.  | ​lower; higher |
|   | c.  | ​higher; lower |
|   | d.  | ​higher; higher |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 52. Systemic risk is the risk that a large decline in one stock’s price could cause investors to sell their stock in other companies.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. The Sarbanes-Oxley Act requires firms to provide complete and accurate financial information and imposes penalties on key executives of the firm if financial fraud is detected.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. Capital market securities are commonly issued in order to finance the purchase of assets such as buildings, equipment, or machinery.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. Commercial banks in aggregate have more assets than credit unions.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 56. Those participants who receive more money than they spend are referred to as

|  |  |  |
| --- | --- | --- |
|   | a.  | deficit units. |
|   | b.  | surplus units. |
|   | c.  | borrowing units. |
|   | d.  | government units. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 57. ​Equity securities

|  |  |  |
| --- | --- | --- |
|   | a.  | ​have a maturity. |
|   | b.  | ​pay interest on a periodic basis. |
|   | c.  | ​represent ownership in the issuer. |
|   | d.  | ​repay the principal amount at maturity. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 58. \_\_\_\_ involve(s) decisions such as how much funding to obtain and what types of securities to issue when financing operations.

|  |  |  |
| --- | --- | --- |
|   | a.  | Corporate finance |
|   | b.  | Investment management |
|   | c.  | Financial markets and institutions |
|   | d.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| 59. There is a \_\_\_\_ relationship between the risk of a security and the expected return from investing in the security.

|  |  |  |
| --- | --- | --- |
|   | a.  | positive |
|   | b.  | negative |
|   | c.  | indeterminable |
|   | d.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| 60. If a security is undervalued, some investors will capitalize on this by purchasing that security. As a result, the security's price will \_\_\_\_, resulting in a \_\_\_\_ return for those investors.

|  |  |  |
| --- | --- | --- |
|   | a.  | rise; lower |
|   | b.  | fall; higher |
|   | c.  | fall; lower |
|   | d.  | rise; higher |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 61. The credit crisis in the 2008–2009 period was caused by weak economies in Asia.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| 62. ​\_\_\_\_ are classified as depository institutions.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​Credit unions |
|   | b.  | ​Pension funds |
|   | c.  | ​Finance companies |
|   | d.  | ​Securities firms |

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| --- | --- |
| *ANSWER:* | a |

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| 63. The main reason that depository institutions experienced financial problems during the credit crisis was their investment in

|  |  |  |
| --- | --- | --- |
|   | a.  | mortgages. |
|   | b.  | money market securities. |
|   | c.  | stocks. |
|   | d.  | Treasury bonds. |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| 64. Those financial markets that facilitate the flow of short-term funds (with maturities of less than one year) are known as capital markets, while those that facilitate the flow of long-term funds are known as money markets.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 65. Bonds commonly have maturities of one to three years.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 66. Since markets are efficient, institutional and individual investors should ignore the various investment instruments available.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 67. Speculating with derivative contracts on an underlying asset typically results in both higher risk and higher returns than speculating in the underlying asset itself.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 68. When security prices fully reflect all available information, the markets for these securities are said to be perfect.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 69. Securities that are not as safe and liquid as other securities are never considered for investment by anyone.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 70. By requiring full disclosure of information, securities laws prevent investors from making poor investment decisions.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 71. When a depository institution offers a loan, it is acting as a creditor.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 72. Savings institutions are a type of nondepository institution.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 73. Most mutual funds raise funds by issuing securities and then lend the funds to individuals and small businesses.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 74. Institutional investors not only provide financial support to companies but also exercise some degree of corporate control over them.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 75. Which of the following is NOT a reason why depository financial institutions are popular?

|  |  |  |
| --- | --- | --- |
|   | a.  | They offer deposit accounts that can accommodate the amount and liquidity characteristics desired by most surplus units. |
|   | b.  | They repackage funds received from deposits to provide loans of the size and maturity desired by deficit units. |
|   | c.  | They accept the risk on loans that they provide. |
|   | d.  | They use their information resources to act as brokers**,** executing securities transactions between two parties. |
|   | e.  | They have more expertise than individual surplus units in evaluating the creditworthiness of deficit units. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 76. Which of the following are NOT considered money market securities?

|  |  |  |
| --- | --- | --- |
|   | a.  | Treasury bills |
|   | b.  | mortgage-backed securities |
|   | c.  | negotiable certificates of deposit |
|   | d.  | commercial paper |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 77. ​\_\_\_\_ are not considered capital market securities.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​Derivative securities |
|   | b.  | ​Treasury bonds |
|   | c.  | ​Corporate bonds |
|   | d.  | ​Equity securities |
|   | e.  | ​Mortgages |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 78. \_\_\_\_ are long-term debt obligations issued by corporations and government agencies to support their operations.

|  |  |  |
| --- | --- | --- |
|   | a.  | Common stock |
|   | b.  | Derivative securities |
|   | c.  | Bonds |
|   | d.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 79. ​Which of the following is an example of an asymmetric information problem?

|  |  |  |
| --- | --- | --- |
|   | a.  | ​A corporation releases toxic wastes into a river. |
|   | b.  | ​A corporation relocates to Ireland to take advantage of lower corporate tax rates. |
|   | c.  | ​A stock analyst rates a stock higher than it deserves because the securities firm she works for wants to obtain business from the corporation that issued the stock. |
|   | d.  | ​A corporation manipulates its financial information to avoid disclosing a large loss from its operations in China. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 80. ​If investors speculate in derivative contracts rather than in the underlying asset, they will probably achieve \_\_\_\_ returns, and they are exposed to relatively \_\_\_\_ risk.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​lower; lower |
|   | b.  | ​lower; higher |
|   | c.  | ​higher; lower |
|   | d.  | ​higher; higher |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 81. When particular securities are perceived to be \_\_\_\_ by the market, their prices decrease when they are sold by investors.

|  |  |  |
| --- | --- | --- |
|   | a.  | undervalued |
|   | b.  | overvalued |
|   | c.  | fairly priced |
|   | d.  | efficient |
|   | e.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. Which of the following are NOT considered depository financial institutions?

|  |  |  |
| --- | --- | --- |
|   | a.  | finance companies |
|   | b.  | commercial banks |
|   | c.  | savings institutions |
|   | d.  | credit unions |
|   | e.  | All of these are depository financial institutions. |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. ​The main source of funds for \_\_\_\_ is proceeds from selling securities to households and businesses, while their main use of funds is providing loans to households and businesses.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​savings institutions |
|   | b.  | ​commercial banks |
|   | c.  | ​mutual funds |
|   | d.  | ​finance companies |
|   | e.  | ​pension funds |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 84. ​Which of the following statements is incorrect?

|  |  |  |
| --- | --- | --- |
|   | a.  | ​Financial markets attract funds from investors and channel the funds to corporations. |
|   | b.  | ​Money markets enable corporations to borrow funds on a short-term basis so that they can support their existing operations. |
|   | c.  | ​Financial institutions serve solely as intermediaries with the financial markets and never serve as investors. |
|   | d.  | ​Investors seek to invest their funds in the stock of firms that are presently undervalued and have much potential to improve. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 85. Which of the following facilitates the exchange of currencies?

|  |  |  |
| --- | --- | --- |
|   | a.  | money market |
|   | b.  | foreign exchange market |
|   | c.  | New York Stock Exchange |
|   | d.  | federal funds market |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 86. ​Debt securities issued by a small firm may be \_\_\_\_\_\_\_\_, meaning that \_\_\_\_\_\_\_ investors want to invest in those securities.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​liquid; many |
|   | b.  | ​liquid; not many |
|   | c.  | ​illiquid; not many |
|   | d.  | ​illiquid; many |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 87. Valuing stocks is easier than valuing debt securities because stocks promise to provide investors with specific payments at regular intervals.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 88. ​\_\_\_\_\_\_\_\_\_\_\_\_ applies psychology to financial decisions and offers an explanation for why markets are not always efficient.

|  |  |  |
| --- | --- | --- |
|   | a.  | ​Psychological marketing |
|   | b.  | ​Behavioral finance |
|   | c.  | ​Inefficient markets theory |
|   | d.  | ​Financial psychology |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 89. International integration of securities markets allows

|  |  |  |
| --- | --- | --- |
|   | a.  | governments and corporations to have easier access to funding from creditors and investors in other countries. |
|   | b.  | investors and creditors to benefit from investment opportunities in other countries. |
|   | c.  | one country’s financial problems to adversely affect other countries. |
|   | d.  | All of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 90. The foreign exchange market facilitates the exchange of

|  |  |  |
| --- | --- | --- |
|   | a.  | information between investors in different countries. |
|   | b.  | debt securities. |
|   | c.  | equity securities. |
|   | d.  | currencies. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 91. If a depository institution is experiencing more deposits than it needs to make loans or invest in securities, it can lend its excess funds to another depository institution through the

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|   | a.  | Federal Reserve’s trading desk. |
|   | b.  | options market. |
|   | c.  | federal funds market. |
|   | d.  | federal exchange market. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 92. Most of the funds that insurance companies receive from premiums are invested in short-run money market securities.

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|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | False |

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| 93. The risk that financial problems could spread among financial institutions and across financial markets, causing a collapse of the financial system, is known as

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|   | a.  | systemic risk. |
|   | b.  | leverage risk. |
|   | c.  | financial meltdown risk. |
|   | d.  | credit risk. |

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| --- | --- |
| *ANSWER:* | a |

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| 94. Systemic risk exists because

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|   | a.  | there is no government regulation of financial markets. |
|   | b.  | financial institutions invest in similar securities and therefore are similarly exposed to large declines in prices of those securities. |
|   | c.  | financial institutions borrow using long-term debt securities but lend their funds for short-term periods. |
|   | d.  | financial institutions invest heavily in Treasury securities and therefore are exposed to the possibility that the government will default on its debts. |

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| *ANSWER:* | b |

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