Chapter 01 - Testbank

*Student: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

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| 1. | |  | | --- | | Financial assets represent \_\_\_\_\_\_\_\_ of total assets of Australian households in 2011. |         |  |  | | --- | --- | | A. | over 35% |  |  |  | | --- | --- | | B. | over 90% |  |  |  | | --- | --- | | C. | under 10% |  |  |  | | --- | --- | | D. | about 30% | |

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| 2. | |  | | --- | | Real assets in the economy include all but which one of the following? |         |  |  | | --- | --- | | A. | Land |  |  |  | | --- | --- | | B. | Buildings |  |  |  | | --- | --- | | C. | Consumer durables |  |  |  | | --- | --- | | D. | Common shares | |

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| 3. | |  | | --- | | Net worth represents \_\_\_\_\_\_\_\_ of the liabilities and net worth of Australian households. |         |  |  | | --- | --- | | A. | about 50% |  |  |  | | --- | --- | | B. | about 90% |  |  |  | | --- | --- | | C. | about 80% |  |  |  | | --- | --- | | D. | about 30% | |

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| 4. | |  | | --- | | According to Australian household balance sheet, the largest liability of Australian households is \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | mortgages |  |  |  | | --- | --- | | B. | consumer credit |  |  |  | | --- | --- | | C. | bank loans |  |  |  | | --- | --- | | D. | gambling debts | |

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| 5. | |  | | --- | | \_\_\_\_\_\_\_\_ is not a derivative security. |         |  |  | | --- | --- | | A. | A share of common shares |  |  |  | | --- | --- | | B. | A call option |  |  |  | | --- | --- | | C. | A futures contract |  |  |  | | --- | --- | | D. | All of the answers are derivative securities. | |

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| 6. | |  | | --- | | According to Australian household balance sheet, the largest financial asset of Australian households is \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | mutual fund shares |  |  |  | | --- | --- | | B. | corporate equity |  |  |  | | --- | --- | | C. | insurance and superannuation reserves |  |  |  | | --- | --- | | D. | personal trusts | |

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| 7. | |  | | --- | | Active trading in markets and competition among securities analysts helps ensure that \_\_\_\_\_\_\_\_.  I. security prices approach informational efficiency  II. riskier securities are priced to offer higher potential returns  III. investors are unlikely to be able to consistently find under- or over-valued securities |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | I, II and III | |

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| 8. | |  | | --- | | The material wealth of society is determined by the economy's \_\_\_\_\_\_\_\_, which is a function of the economy's \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | investment bankers, financial assets |  |  |  | | --- | --- | | B. | investment bankers, real assets |  |  |  | | --- | --- | | C. | productive capacity, financial assets |  |  |  | | --- | --- | | D. | productive capacity, real assets | |

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| 9. | |  | | --- | | Which of the following is not a money market security? |         |  |  | | --- | --- | | A. | Australian government bond |  |  |  | | --- | --- | | B. | Six month maturity certificate of deposit |  |  |  | | --- | --- | | C. | Common shares |  |  |  | | --- | --- | | D. | Banker's acceptance | |

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| 10. | |  | | --- | | \_\_\_\_\_\_\_\_ assets generate net income to the economy and \_\_\_\_\_\_\_\_ assets define allocation of income among investors. |         |  |  | | --- | --- | | A. | Financial, financial |  |  |  | | --- | --- | | B. | Financial, real |  |  |  | | --- | --- | | C. | Real, financial |  |  |  | | --- | --- | | D. | Real, real | |

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| 11. | |  | | --- | | Which of the following are financial assets?  I. Debt securities  II. Equity securities  III. Derivative securities |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | I, II and III | |

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| 12. | |  | | --- | | \_\_\_\_\_\_\_\_ are examples of financial intermediaries. |         |  |  | | --- | --- | | A. | Commercial banks |  |  |  | | --- | --- | | B. | Insurance companies |  |  |  | | --- | --- | | C. | Investment companies |  |  |  | | --- | --- | | D. | All of the answers are financial intermediaries | |

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| 13. | |  | | --- | | Asset allocation refers to the \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | allocation of the investment portfolio across broad asset classes |  |  |  | | --- | --- | | B. | analysis of the value of securities |  |  |  | | --- | --- | | C. | choice of specific assets within each asset class |  |  |  | | --- | --- | | D. | none of the answers define asset allocation | |

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| 14. | |  | | --- | | Which one of the following best describes the purpose of derivatives markets? |         |  |  | | --- | --- | | A. | Transferring risk from one party to another |  |  |  | | --- | --- | | B. | Investing for a short time period to earn a small rate of return |  |  |  | | --- | --- | | C. | Investing for retirement |  |  |  | | --- | --- | | D. | Earning interest income | |

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| 15. | |  | | --- | | Security selection refers to the \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | allocation of the investment portfolio across broad asset classes |  |  |  | | --- | --- | | B. | analysis of the value of securities |  |  |  | | --- | --- | | C. | choice of specific securities within each asset class |  |  |  | | --- | --- | | D. | top down method of investing | |

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| 16. | |  | | --- | | \_\_\_\_\_\_\_\_ is an example of an agency problem. |         |  |  | | --- | --- | | A. | Managers engaging in empire building |  |  |  | | --- | --- | | B. | Managers protecting their jobs by avoiding risky projects |  |  |  | | --- | --- | | C. | Managers over-consuming luxuries such as corporate jets |  |  |  | | --- | --- | | D. | All of the answers provide examples of agency problems | |

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| 17. | |  | | --- | | \_\_\_\_\_\_\_\_ is a mechanism to mitigate potential agency problems. |         |  |  | | --- | --- | | A. | Tying income of managers to the success of the firm |  |  |  | | --- | --- | | B. | Directors defending top management |  |  |  | | --- | --- | | C. | Anti-takeover strategies |  |  |  | | --- | --- | | D. | The straight-voting method of electing the board of directors | |

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| 18. | |  | | --- | | \_\_\_\_\_\_\_\_ are real assets. |         |  |  | | --- | --- | | A. | Bonds |  |  |  | | --- | --- | | B. | Items of production equipment |  |  |  | | --- | --- | | C. | Shares |  |  |  | | --- | --- | | D. | Commercial papers | |

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| 19. | |  | | --- | | \_\_\_\_\_\_\_\_ portfolio construction starts with selecting attractively priced securities. |         |  |  | | --- | --- | | A. | Bottom-up |  |  |  | | --- | --- | | B. | Top-down |  |  |  | | --- | --- | | C. | Upside-down |  |  |  | | --- | --- | | D. | Side-to-side | |

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| 20. | |  | | --- | | In a capitalist system capital resources are primarily allocated by \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | governments |  |  |  | | --- | --- | | B. | regulatory authorities |  |  |  | | --- | --- | | C. | financial markets |  |  |  | | --- | --- | | D. | investment bankers | |

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| 21. | |  | | --- | | A \_\_\_\_\_\_\_\_ represents an ownership share in a corporation. |         |  |  | | --- | --- | | A. | call option |  |  |  | | --- | --- | | B. | common share |  |  |  | | --- | --- | | C. | fixed-income security |  |  |  | | --- | --- | | D. | preferred share | |

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| 22. | |  | | --- | | The value of a derivative security \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | depends on the value of other related security |  |  |  | | --- | --- | | B. | affects the value of a related security |  |  |  | | --- | --- | | C. | is unrelated to the value of a related security |  |  |  | | --- | --- | | D. | can only be integrated by calculus professors | |

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| 23. | |  | | --- | | \_\_\_\_\_\_\_\_ portfolio management calls for holding diversified portfolios without spending effort or resources attempting to improve investment performance through security analysis. |         |  |  | | --- | --- | | A. | Active |  |  |  | | --- | --- | | B. | Momentum |  |  |  | | --- | --- | | C. | Passive |  |  |  | | --- | --- | | D. | Market timing | |

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| 24. | |  | | --- | | Financial markets allow for all but which one of the following? |         |  |  | | --- | --- | | A. | Shifting of consumption through time from higher income periods to lower |  |  |  | | --- | --- | | B. | Pricing of securities according to their riskiness |  |  |  | | --- | --- | | C. | Channelling of funds from lenders of funds to borrowers of funds |  |  |  | | --- | --- | | D. | Most participants to routinely earn high returns with low risk | |

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| 25. | |  | | --- | | Financial intermediaries exist because small investors cannot efficiently \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | diversify their portfolios |  |  |  | | --- | --- | | B. | gather information |  |  |  | | --- | --- | | C. | monitor their portfolios |  |  |  | | --- | --- | | D. | all of the answers provide reasons | |

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| 26. | |  | | --- | | Methods to encourage managers to act in shareholders' best interest include  I. Threat of takeover  II. Proxy fights for control of the Board of Directors  III. Tying managers' compensation to share price performance |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | I, II and III | |

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| 27. | |  | | --- | | Firms that specialise in helping companies raise capital by selling securities to the public are called \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | pension funds |  |  |  | | --- | --- | | B. | investment banks |  |  |  | | --- | --- | | C. | savings banks |  |  |  | | --- | --- | | D. | REITs | |

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| 28. | |  | | --- | | In securities markets, there should be a risk-return trade-off with higher-risk assets having \_\_\_\_\_\_\_\_ expected returns than lower-risk assets. |         |  |  | | --- | --- | | A. | higher |  |  |  | | --- | --- | | B. | lower |  |  |  | | --- | --- | | C. | the same |  |  |  | | --- | --- | | D. | Can't tell from the information given | |

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| 29. | |  | | --- | | Security selection refers to \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | choosing specific securities within each asset-class |  |  |  | | --- | --- | | B. | deciding how much to invest in each asset-class |  |  |  | | --- | --- | | C. | deciding how much to invest in the market portfolio versus the riskless asset |  |  |  | | --- | --- | | D. | deciding how much to hedge | |

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| 30. | |  | | --- | | An example of a derivative security is \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | a common share of Telstra |  |  |  | | --- | --- | | B. | a call option on an ANZ share |  |  |  | | --- | --- | | C. | a Telstra bond |  |  |  | | --- | --- | | D. | an Australian government bond | |

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| 31. | |  | | --- | | \_\_\_\_\_\_\_\_ portfolio construction starts with asset allocation. |         |  |  | | --- | --- | | A. | Bottom-up |  |  |  | | --- | --- | | B. | Top-down |  |  |  | | --- | --- | | C. | Upside-down |  |  |  | | --- | --- | | D. | Side-to-side | |

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| 32. | |  | | --- | | Debt securities promise \_\_\_\_\_\_\_\_.  I. a fixed stream of income  II. a stream of income that is determined according to a specific formula  III. a share in the profits of the issuing entity |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I or II only |  |  |  | | --- | --- | | C. | I and III only |  |  |  | | --- | --- | | D. | II or III only | |

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| 33. | |  | | --- | | The success of common share investments depends on the success of \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | derivative securities |  |  |  | | --- | --- | | B. | fixed income securities |  |  |  | | --- | --- | | C. | the firm and its real assets |  |  |  | | --- | --- | | D. | government methods of allocating capital | |

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| 34. | |  | | --- | | An example of a real asset is \_\_\_\_\_\_\_\_.  I. a college education  II. customer goodwill  III. a patent |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and III only |  |  |  | | --- | --- | | D. | I, II and III | |

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| 35. | |  | | --- | | Which of the following is not a financial intermediary? |         |  |  | | --- | --- | | A. | a mutual fund |  |  |  | | --- | --- | | B. | an insurance company |  |  |  | | --- | --- | | C. | a real estate brokerage firm |  |  |  | | --- | --- | | D. | a savings and loan company | |

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| 36. | |  | | --- | | In 2011 real assets represented approximately \_\_\_\_\_\_\_\_ per cent of the total asset holdings of Australian households. |         |  |  | | --- | --- | | A. | 66% |  |  |  | | --- | --- | | B. | 42% |  |  |  | | --- | --- | | C. | 48% |  |  |  | | --- | --- | | D. | 55% | |

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| 37. | |  | | --- | | In 2011 mortgages represented approximately \_\_\_\_\_\_\_\_ per cent of the total liabilities and net worth of Australian households. |         |  |  | | --- | --- | | A. | 12% |  |  |  | | --- | --- | | B. | 20% |  |  |  | | --- | --- | | C. | 28% |  |  |  | | --- | --- | | D. | 42% | |

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| 38. | |  | | --- | | Which of the following is not an example of a financial intermediary? |         |  |  | | --- | --- | | A. | Goldman Sachs |  |  |  | | --- | --- | | B. | Allstate Insurance |  |  |  | | --- | --- | | C. | First Interstate Bank |  |  |  | | --- | --- | | D. | IBM | |

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| 39. | |  | | --- | | Money Market securities are characterised by \_\_\_\_\_\_\_\_.  I. maturity less than one year  II. safety of the principal investment  III. low rates of return |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | I and III only |  |  |  | | --- | --- | | D. | I, II and III | |

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| 40. | |  | | --- | | After much investigation an investor finds that Intel shares are currently under-priced. This is an example of \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | asset allocation |  |  |  | | --- | --- | | B. | security analysis |  |  |  | | --- | --- | | C. | top-down portfolio management |  |  |  | | --- | --- | | D. | passive management | |

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| 41. | |  | | --- | | After considering current market conditions an investor decides to place 60% of their funds in equities and the rest in bonds. This is an example of \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | asset allocation |  |  |  | | --- | --- | | B. | security analysis |  |  |  | | --- | --- | | C. | top down portfolio management |  |  |  | | --- | --- | | D. | passive management | |

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| 42. | |  | | --- | | Suppose an investor is considering one of two investments which are identical in all respects except for risk. If the investor anticipates a fair return for the risk of the security they invest in they can expect to \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | earn no more than the Treasury bond rate on either security |  |  |  | | --- | --- | | B. | pay less for the security that has higher risk |  |  |  | | --- | --- | | C. | pay less for the security that has lower risk |  |  |  | | --- | --- | | D. | earn more if interest rates are lower | |

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| 43. | |  | | --- | | The efficient markets hypothesis suggests that \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | active portfolio management strategies are the most appropriate investment strategies |  |  |  | | --- | --- | | B. | passive portfolio management strategies are the most appropriate investment strategies |  |  |  | | --- | --- | | C. | either active or passive strategies may be appropriate, depending on the expected direction of the market |  |  |  | | --- | --- | | D. | a bottom up approach is the most appropriate investment strategy | |

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| 44. | |  | | --- | | In a perfectly efficient market the best investment strategy is probably a/an |         |  |  | | --- | --- | | A. | active strategy |  |  |  | | --- | --- | | B. | passive strategy |  |  |  | | --- | --- | | C. | asset allocation |  |  |  | | --- | --- | | D. | market timing | |

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| 45. | |  | | --- | | An important trend that has changed the contemporary investment market is \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | financial engineering |  |  |  | | --- | --- | | B. | globalisation |  |  |  | | --- | --- | | C. | securitisation |  |  |  | | --- | --- | | D. | all of these answers | |

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| 46. | |  | | --- | | Individuals may find it more advantageous to purchase claims from a financial intermediary rather than directly purchasing claims in capital markets because \_\_\_\_\_\_\_\_.  I. intermediaries are better diversified than most individuals  II. intermediaries can exploit economies of scale in investing that individual investors cannot  III. intermediated investments usually offer higher rates of return than direct capital market claims |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | I, II and III | |

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| 47. | |  | | --- | | Surf City Software Company develops new surf forecasting software. It sells the software to Microsoft in exchange for 1000 common shares of Microsoft. Surf City Software has exchanged a \_\_\_\_\_\_\_\_ asset for a \_\_\_\_\_\_\_\_ asset in this transaction. |         |  |  | | --- | --- | | A. | real, real |  |  |  | | --- | --- | | B. | financial, financial |  |  |  | | --- | --- | | C. | real, financial |  |  |  | | --- | --- | | D. | financial, real | |

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| 48. | |  | | --- | | Stone Harbor Products takes out a bank loan. It receives $100 000 and signs a promissory note to pay back the loan over 5 years. |         |  |  | | --- | --- | | A. | A new financial asset was created in this transaction. |  |  |  | | --- | --- | | B. | A financial asset was traded for a real asset in this transaction. |  |  |  | | --- | --- | | C. | A financial asset was destroyed in this transaction. |  |  |  | | --- | --- | | D. | A real asset was created in this transaction. | |

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| 49. | |  | | --- | | Accounting scandals can often be attributed to a particular concept in the study of finance known as the \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | agency problem |  |  |  | | --- | --- | | B. | risk-return trade-off |  |  |  | | --- | --- | | C. | allocation of risk |  |  |  | | --- | --- | | D. | securitisation | |

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| 50. | |  | | --- | | An intermediary that pools and manages funds for many investors is called a/an \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | investment company |  |  |  | | --- | --- | | B. | savings and loan |  |  |  | | --- | --- | | C. | investment banker |  |  |  | | --- | --- | | D. | ADR | |

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| 51. | |  | | --- | | Financial institutions that specialise in assisting corporations in primary market transactions are called \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | mutual funds |  |  |  | | --- | --- | | B. | investment bankers |  |  |  | | --- | --- | | C. | pension funds |  |  |  | | --- | --- | | D. | globalisation specialists | |

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| 52. | |  | | --- | | In 2008 the largest corporate bankruptcy in US history involved the investment banking firm of \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | Goldman Sachs |  |  |  | | --- | --- | | B. | Lehman Brothers |  |  |  | | --- | --- | | C. | Morgan Stanley |  |  |  | | --- | --- | | D. | Merrill Lynch | |

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| 53. | |  | | --- | | The inability of shareholders to influence the decisions of managers, despite overwhelming shareholder support, is a breakdown in what process or mechanism? |         |  |  | | --- | --- | | A. | Auditing |  |  |  | | --- | --- | | B. | Public finance |  |  |  | | --- | --- | | C. | Corporate governance |  |  |  | | --- | --- | | D. | Public reporting | |

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| 54. | |  | | --- | | Real assets are \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | assets used to produce goods and services |  |  |  | | --- | --- | | B. | always the same as financial assets |  |  |  | | --- | --- | | C. | always equal to liabilities |  |  |  | | --- | --- | | D. | claims on company's income | |

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| 55. | |  | | --- | | An investment advisor has decided to purchase gold, real estate, shares and bonds in equal amounts. This decision reflects which part of the investment process? |         |  |  | | --- | --- | | A. | Asset allocation |  |  |  | | --- | --- | | B. | Investment analysis |  |  |  | | --- | --- | | C. | Portfolio analysis |  |  |  | | --- | --- | | D. | Security selection | |

Chapter 01 - Testbank Key

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| 1. | |  | | --- | | Financial assets represent \_\_\_\_\_\_\_\_ of total assets of Australian households in 2011. |         |  |  | | --- | --- | | **A.** | over 35% |  |  |  | | --- | --- | | B. | over 90% |  |  |  | | --- | --- | | C. | under 10% |  |  |  | | --- | --- | | D. | about 30% | |

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| *Bodie - Chapter 01 #1 Difficulty: Easy Learning Objective: 1.3 Discuss the role of financial markets in the wider economy. Section: 1.1 Real assets versus financial assets* |

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| 2. | |  | | --- | | Real assets in the economy include all but which one of the following? |         |  |  | | --- | --- | | A. | Land |  |  |  | | --- | --- | | B. | Buildings |  |  |  | | --- | --- | | C. | Consumer durables |  |  |  | | --- | --- | | **D.** | Common shares | |

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| *Bodie - Chapter 01 #2 Difficulty: Easy Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. | |  | | --- | | Net worth represents \_\_\_\_\_\_\_\_ of the liabilities and net worth of Australian households. |         |  |  | | --- | --- | | A. | about 50% |  |  |  | | --- | --- | | B. | about 90% |  |  |  | | --- | --- | | **C.** | about 80% |  |  |  | | --- | --- | | D. | about 30% | |

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| *Bodie - Chapter 01 #3 Difficulty: Medium Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. | |  | | --- | | According to Australian household balance sheet, the largest liability of Australian households is \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | **A.** | mortgages |  |  |  | | --- | --- | | B. | consumer credit |  |  |  | | --- | --- | | C. | bank loans |  |  |  | | --- | --- | | D. | gambling debts | |

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| *Bodie - Chapter 01 #4 Difficulty: Medium Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| 5. | |  | | --- | | \_\_\_\_\_\_\_\_ is not a derivative security. |         |  |  | | --- | --- | | **A.** | A share of common shares |  |  |  | | --- | --- | | B. | A call option |  |  |  | | --- | --- | | C. | A futures contract |  |  |  | | --- | --- | | D. | All of the answers are derivative securities. | |

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| *Bodie - Chapter 01 #5 Difficulty: Easy Learning Objective: 1.2 Distinguish between and describe three major financial assets. Section: 1.2 Types of financial assets* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | |  | | --- | | According to Australian household balance sheet, the largest financial asset of Australian households is \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | mutual fund shares |  |  |  | | --- | --- | | B. | corporate equity |  |  |  | | --- | --- | | **C.** | insurance and superannuation reserves |  |  |  | | --- | --- | | D. | personal trusts | |

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| *Bodie - Chapter 01 #6 Difficulty: Medium Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. | |  | | --- | | Active trading in markets and competition among securities analysts helps ensure that \_\_\_\_\_\_\_\_.  I. security prices approach informational efficiency  II. riskier securities are priced to offer higher potential returns  III. investors are unlikely to be able to consistently find under- or over-valued securities |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | **D.** | I, II and III | |

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| *Bodie - Chapter 01 #7 Difficulty: Hard Gradable: automatic Learning Objective: 1.4 Discuss components of the investment process. Section: 1.3 The roles of financial markets in the economy* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. | |  | | --- | | The material wealth of society is determined by the economy's \_\_\_\_\_\_\_\_, which is a function of the economy's \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | investment bankers, financial assets |  |  |  | | --- | --- | | B. | investment bankers, real assets |  |  |  | | --- | --- | | C. | productive capacity, financial assets |  |  |  | | --- | --- | | **D.** | productive capacity, real assets | |

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| *Bodie - Chapter 01 #8 Difficulty: Medium Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| 9. | |  | | --- | | Which of the following is not a money market security? |         |  |  | | --- | --- | | A. | Australian government bond |  |  |  | | --- | --- | | B. | Six month maturity certificate of deposit |  |  |  | | --- | --- | | **C.** | Common shares |  |  |  | | --- | --- | | D. | Banker's acceptance | |

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| *Bodie - Chapter 01 #9 Difficulty: Medium Learning Objective: 1.2 Distinguish between and describe three major financial assets. Section: 1.2 Types of financial assets* |

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| 10. | |  | | --- | | \_\_\_\_\_\_\_\_ assets generate net income to the economy and \_\_\_\_\_\_\_\_ assets define allocation of income among investors. |         |  |  | | --- | --- | | A. | Financial, financial |  |  |  | | --- | --- | | B. | Financial, real |  |  |  | | --- | --- | | **C.** | Real, financial |  |  |  | | --- | --- | | D. | Real, real | |

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| *Bodie - Chapter 01 #10 Difficulty: Medium Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| 11. | |  | | --- | | Which of the following are financial assets?  I. Debt securities  II. Equity securities  III. Derivative securities |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | **D.** | I, II and III | |

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| *Bodie - Chapter 01 #11 Difficulty: Hard Gradable: automatic Learning Objective: 1.2 Distinguish between and describe three major financial assets. Section: 1.2 Types of financial assets* |

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| 12. | |  | | --- | | \_\_\_\_\_\_\_\_ are examples of financial intermediaries. |         |  |  | | --- | --- | | A. | Commercial banks |  |  |  | | --- | --- | | B. | Insurance companies |  |  |  | | --- | --- | | C. | Investment companies |  |  |  | | --- | --- | | **D.** | All of the answers are financial intermediaries | |

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| *Bodie - Chapter 01 #12 Difficulty: Easy Learning Objective: 1.6 Discuss the role of financial intermediaries. Section: 1.6 Financial intermediaries* |

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| 13. | |  | | --- | | Asset allocation refers to the \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | **A.** | allocation of the investment portfolio across broad asset classes |  |  |  | | --- | --- | | B. | analysis of the value of securities |  |  |  | | --- | --- | | C. | choice of specific assets within each asset class |  |  |  | | --- | --- | | D. | none of the answers define asset allocation | |

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| *Bodie - Chapter 01 #13 Difficulty: Easy Learning Objective: 1.4 Discuss components of the investment process. Section: 1.4 The investment process* |

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| 14. | |  | | --- | | Which one of the following best describes the purpose of derivatives markets? |         |  |  | | --- | --- | | **A.** | Transferring risk from one party to another |  |  |  | | --- | --- | | B. | Investing for a short time period to earn a small rate of return |  |  |  | | --- | --- | | C. | Investing for retirement |  |  |  | | --- | --- | | D. | Earning interest income | |

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| *Bodie - Chapter 01 #14 Difficulty: Medium Learning Objective: 1.2 Distinguish between and describe three major financial assets. Section: 1.2 Types of financial assets* |

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| 15. | |  | | --- | | Security selection refers to the \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | allocation of the investment portfolio across broad asset classes |  |  |  | | --- | --- | | B. | analysis of the value of securities |  |  |  | | --- | --- | | **C.** | choice of specific securities within each asset class |  |  |  | | --- | --- | | D. | top down method of investing | |

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| *Bodie - Chapter 01 #15 Difficulty: Medium Learning Objective: 1.4 Discuss components of the investment process. Section: 1.4 The investment process* |

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| 16. | |  | | --- | | \_\_\_\_\_\_\_\_ is an example of an agency problem. |         |  |  | | --- | --- | | A. | Managers engaging in empire building |  |  |  | | --- | --- | | B. | Managers protecting their jobs by avoiding risky projects |  |  |  | | --- | --- | | C. | Managers over-consuming luxuries such as corporate jets |  |  |  | | --- | --- | | **D.** | All of the answers provide examples of agency problems | |

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| *Bodie - Chapter 01 #16 Difficulty: Easy Learning Objective: 1.3 Discuss the role of financial markets in the wider economy. Section: 1.3 The roles of financial markets in the economy* |

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| 17. | |  | | --- | | \_\_\_\_\_\_\_\_ is a mechanism to mitigate potential agency problems. |         |  |  | | --- | --- | | **A.** | Tying income of managers to the success of the firm |  |  |  | | --- | --- | | B. | Directors defending top management |  |  |  | | --- | --- | | C. | Anti-takeover strategies |  |  |  | | --- | --- | | D. | The straight-voting method of electing the board of directors | |

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| *Bodie - Chapter 01 #17 Difficulty: Hard Learning Objective: 1.3 Discuss the role of financial markets in the wider economy. Section: 1.3 The roles of financial markets in the economy* |

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| 18. | |  | | --- | | \_\_\_\_\_\_\_\_ are real assets. |         |  |  | | --- | --- | | A. | Bonds |  |  |  | | --- | --- | | **B.** | Items of production equipment |  |  |  | | --- | --- | | C. | Shares |  |  |  | | --- | --- | | D. | Commercial papers | |

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| *Bodie - Chapter 01 #18 Difficulty: Easy Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| 19. | |  | | --- | | \_\_\_\_\_\_\_\_ portfolio construction starts with selecting attractively priced securities. |         |  |  | | --- | --- | | **A.** | Bottom-up |  |  |  | | --- | --- | | B. | Top-down |  |  |  | | --- | --- | | C. | Upside-down |  |  |  | | --- | --- | | D. | Side-to-side | |

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| *Bodie - Chapter 01 #19 Difficulty: Easy Learning Objective: 1.4 Discuss components of the investment process. Section: 1.4 The investment process* |

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| 20. | |  | | --- | | In a capitalist system capital resources are primarily allocated by \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | governments |  |  |  | | --- | --- | | B. | regulatory authorities |  |  |  | | --- | --- | | **C.** | financial markets |  |  |  | | --- | --- | | D. | investment bankers | |

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| *Bodie - Chapter 01 #20 Difficulty: Easy Learning Objective: 1.3 Discuss the role of financial markets in the wider economy. Section: 1.3 The roles of financial markets in the economy* |

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| 21. | |  | | --- | | A \_\_\_\_\_\_\_\_ represents an ownership share in a corporation. |         |  |  | | --- | --- | | A. | call option |  |  |  | | --- | --- | | **B.** | common share |  |  |  | | --- | --- | | C. | fixed-income security |  |  |  | | --- | --- | | D. | preferred share | |

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| *Bodie - Chapter 01 #21 Difficulty: Easy Learning Objective: 1.2 Distinguish between and describe three major financial assets. Section: 1.2 Types of financial assets* |

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| 22. | |  | | --- | | The value of a derivative security \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | **A.** | depends on the value of other related security |  |  |  | | --- | --- | | B. | affects the value of a related security |  |  |  | | --- | --- | | C. | is unrelated to the value of a related security |  |  |  | | --- | --- | | D. | can only be integrated by calculus professors | |

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| *Bodie - Chapter 01 #22 Difficulty: Easy Learning Objective: 1.2 Distinguish between and describe three major financial assets. Section: 1.2 Types of financial assets* |

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| 23. | |  | | --- | | \_\_\_\_\_\_\_\_ portfolio management calls for holding diversified portfolios without spending effort or resources attempting to improve investment performance through security analysis. |         |  |  | | --- | --- | | A. | Active |  |  |  | | --- | --- | | B. | Momentum |  |  |  | | --- | --- | | **C.** | Passive |  |  |  | | --- | --- | | D. | Market timing | |

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| *Bodie - Chapter 01 #23 Difficulty: Easy Learning Objective: 1.6 Discuss the role of financial intermediaries. Section: 1.6 Financial intermediaries* |

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| 24. | |  | | --- | | Financial markets allow for all but which one of the following? |         |  |  | | --- | --- | | A. | Shifting of consumption through time from higher income periods to lower |  |  |  | | --- | --- | | B. | Pricing of securities according to their riskiness |  |  |  | | --- | --- | | C. | Channelling of funds from lenders of funds to borrowers of funds |  |  |  | | --- | --- | | **D.** | Most participants to routinely earn high returns with low risk | |

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| *Bodie - Chapter 01 #24 Difficulty: Moderate Learning Objective: 1.3 Discuss the role of financial markets in the wider economy. Section: 1.3 The roles of financial markets in the economy* |

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| 25. | |  | | --- | | Financial intermediaries exist because small investors cannot efficiently \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | diversify their portfolios |  |  |  | | --- | --- | | B. | gather information |  |  |  | | --- | --- | | C. | monitor their portfolios |  |  |  | | --- | --- | | **D.** | all of the answers provide reasons | |

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| *Bodie - Chapter 01 #25 Difficulty: Easy Learning Objective: 1.6 Discuss the role of financial intermediaries. Section: 1.6 Financial intermediaries* |

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| 26. | |  | | --- | | Methods to encourage managers to act in shareholders' best interest include  I. Threat of takeover  II. Proxy fights for control of the Board of Directors  III. Tying managers' compensation to share price performance |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | **D.** | I, II and III | |

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| *Bodie - Chapter 01 #26 Difficulty: Easy Gradable: automatic Learning Objective: 1.3 Discuss the role of financial markets in the wider economy. Section: 1.3 The roles of financial markets in the economy* |

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| 27. | |  | | --- | | Firms that specialise in helping companies raise capital by selling securities to the public are called \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | pension funds |  |  |  | | --- | --- | | **B.** | investment banks |  |  |  | | --- | --- | | C. | savings banks |  |  |  | | --- | --- | | D. | REITs | |

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| *Bodie - Chapter 01 #27 Difficulty: Easy Learning Objective: 1.6 Discuss the role of financial intermediaries. Section: 1.6 Financial intermediaries* |

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| 28. | |  | | --- | | In securities markets, there should be a risk-return trade-off with higher-risk assets having \_\_\_\_\_\_\_\_ expected returns than lower-risk assets. |         |  |  | | --- | --- | | **A.** | higher |  |  |  | | --- | --- | | B. | lower |  |  |  | | --- | --- | | C. | the same |  |  |  | | --- | --- | | D. | Can't tell from the information given | |

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| *Bodie - Chapter 01 #28 Difficulty: Easy Learning Objective: 1.3 Discuss the role of financial markets in the wider economy. Section: 1.3 The roles of financial markets in the economy* |

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| 29. | |  | | --- | | Security selection refers to \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | **A.** | choosing specific securities within each asset-class |  |  |  | | --- | --- | | B. | deciding how much to invest in each asset-class |  |  |  | | --- | --- | | C. | deciding how much to invest in the market portfolio versus the riskless asset |  |  |  | | --- | --- | | D. | deciding how much to hedge | |

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| *Bodie - Chapter 01 #29 Difficulty: Easy Learning Objective: 1.4 Discuss components of the investment process. Section: 1.4 The investment process* |

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| 30. | |  | | --- | | An example of a derivative security is \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | a common share of Telstra |  |  |  | | --- | --- | | **B.** | a call option on an ANZ share |  |  |  | | --- | --- | | C. | a Telstra bond |  |  |  | | --- | --- | | D. | an Australian government bond | |

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| *Bodie - Chapter 01 #30 Difficulty: Easy Learning Objective: 1.2 Distinguish between and describe three major financial assets. Section: 1.2 Types of financial assets* |

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| 31. | |  | | --- | | \_\_\_\_\_\_\_\_ portfolio construction starts with asset allocation. |         |  |  | | --- | --- | | A. | Bottom-up |  |  |  | | --- | --- | | **B.** | Top-down |  |  |  | | --- | --- | | C. | Upside-down |  |  |  | | --- | --- | | D. | Side-to-side | |

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| *Bodie - Chapter 01 #31 Difficulty: Easy Learning Objective: 1.4 Discuss components of the investment process. Section: 1.4 The investment process* |

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| 32. | |  | | --- | | Debt securities promise \_\_\_\_\_\_\_\_.  I. a fixed stream of income  II. a stream of income that is determined according to a specific formula  III. a share in the profits of the issuing entity |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | **B.** | I or II only |  |  |  | | --- | --- | | C. | I and III only |  |  |  | | --- | --- | | D. | II or III only | |

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| *Bodie - Chapter 01 #32 Difficulty: Medium Gradable: automatic Learning Objective: 1.2 Distinguish between and describe three major financial assets. Section: 1.2 Types of financial assets* |

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| 33. | |  | | --- | | The success of common share investments depends on the success of \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | derivative securities |  |  |  | | --- | --- | | B. | fixed income securities |  |  |  | | --- | --- | | **C.** | the firm and its real assets |  |  |  | | --- | --- | | D. | government methods of allocating capital | |

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| *Bodie - Chapter 01 #33 Difficulty: Easy Learning Objective: 1.2 Distinguish between and describe three major financial assets. Section: 1.2 Types of financial assets* |

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| 34. | |  | | --- | | An example of a real asset is \_\_\_\_\_\_\_\_.  I. a college education  II. customer goodwill  III. a patent |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and III only |  |  |  | | --- | --- | | **D.** | I, II and III | |

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| *Bodie - Chapter 01 #34 Difficulty: Medium Gradable: automatic Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| 35. | |  | | --- | | Which of the following is not a financial intermediary? |         |  |  | | --- | --- | | A. | a mutual fund |  |  |  | | --- | --- | | B. | an insurance company |  |  |  | | --- | --- | | **C.** | a real estate brokerage firm |  |  |  | | --- | --- | | D. | a savings and loan company | |

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| *Bodie - Chapter 01 #35 Difficulty: Medium Learning Objective: 1.6 Discuss the role of financial intermediaries. Section: 1.6 Financial intermediaries* |

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| 36. | |  | | --- | | In 2011 real assets represented approximately \_\_\_\_\_\_\_\_ per cent of the total asset holdings of Australian households. |         |  |  | | --- | --- | | **A.** | 66% |  |  |  | | --- | --- | | B. | 42% |  |  |  | | --- | --- | | C. | 48% |  |  |  | | --- | --- | | D. | 55% | |

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| *Bodie - Chapter 01 #36 Difficulty: Medium Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| 37. | |  | | --- | | In 2011 mortgages represented approximately \_\_\_\_\_\_\_\_ per cent of the total liabilities and net worth of Australian households. |         |  |  | | --- | --- | | A. | 12% |  |  |  | | --- | --- | | **B.** | 20% |  |  |  | | --- | --- | | C. | 28% |  |  |  | | --- | --- | | D. | 42% | |

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| *Bodie - Chapter 01 #37 Difficulty: Medium Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| 38. | |  | | --- | | Which of the following is not an example of a financial intermediary? |         |  |  | | --- | --- | | A. | Goldman Sachs |  |  |  | | --- | --- | | B. | Allstate Insurance |  |  |  | | --- | --- | | C. | First Interstate Bank |  |  |  | | --- | --- | | **D.** | IBM | |

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| *Bodie - Chapter 01 #38 Difficulty: Easy Learning Objective: 1.6 Discuss the role of financial intermediaries. Section: 1.6 Financial intermediaries* |

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| 39. | |  | | --- | | Money Market securities are characterised by \_\_\_\_\_\_\_\_.  I. maturity less than one year  II. safety of the principal investment  III. low rates of return |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | I and III only |  |  |  | | --- | --- | | **D.** | I, II and III | |

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| *Bodie - Chapter 01 #39 Difficulty: Easy Gradable: automatic Learning Objective: 1.2 Distinguish between and describe three major financial assets. Section: 1.2 Types of financial assets* |

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| 40. | |  | | --- | | After much investigation an investor finds that Intel shares are currently under-priced. This is an example of \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | asset allocation |  |  |  | | --- | --- | | **B.** | security analysis |  |  |  | | --- | --- | | C. | top-down portfolio management |  |  |  | | --- | --- | | D. | passive management | |

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| *Bodie - Chapter 01 #40 Difficulty: Medium Learning Objective: 1.4 Discuss components of the investment process. Section: 1.4 The investment process* |

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| 41. | |  | | --- | | After considering current market conditions an investor decides to place 60% of their funds in equities and the rest in bonds. This is an example of \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | **A.** | asset allocation |  |  |  | | --- | --- | | B. | security analysis |  |  |  | | --- | --- | | C. | top down portfolio management |  |  |  | | --- | --- | | D. | passive management | |

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| *Bodie - Chapter 01 #41 Difficulty: Medium Learning Objective: 1.4 Discuss components of the investment process. Section: 1.4 The investment process* |

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| 42. | |  | | --- | | Suppose an investor is considering one of two investments which are identical in all respects except for risk. If the investor anticipates a fair return for the risk of the security they invest in they can expect to \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | earn no more than the Treasury bond rate on either security |  |  |  | | --- | --- | | **B.** | pay less for the security that has higher risk |  |  |  | | --- | --- | | C. | pay less for the security that has lower risk |  |  |  | | --- | --- | | D. | earn more if interest rates are lower | |

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| *Bodie - Chapter 01 #42 Difficulty: Hard Learning Objective: 1.4 Discuss components of the investment process. Section: 1.4 The investment process* |

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| 43. | |  | | --- | | The efficient markets hypothesis suggests that \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | active portfolio management strategies are the most appropriate investment strategies |  |  |  | | --- | --- | | **B.** | passive portfolio management strategies are the most appropriate investment strategies |  |  |  | | --- | --- | | C. | either active or passive strategies may be appropriate, depending on the expected direction of the market |  |  |  | | --- | --- | | D. | a bottom up approach is the most appropriate investment strategy | |

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| *Bodie - Chapter 01 #43 Difficulty: Easy Learning Objective: 1.4 Discuss components of the investment process. Section: 1.4 The investment process* |

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| 44. | |  | | --- | | In a perfectly efficient market the best investment strategy is probably a/an |         |  |  | | --- | --- | | A. | active strategy |  |  |  | | --- | --- | | **B.** | passive strategy |  |  |  | | --- | --- | | C. | asset allocation |  |  |  | | --- | --- | | D. | market timing | |

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| *Bodie - Chapter 01 #44 Difficulty: Easy Learning Objective: 1.6 Discuss the role of financial intermediaries. Section: 1.6 Financial intermediaries* |

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| 45. | |  | | --- | | An important trend that has changed the contemporary investment market is \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | financial engineering |  |  |  | | --- | --- | | B. | globalisation |  |  |  | | --- | --- | | C. | securitisation |  |  |  | | --- | --- | | **D.** | all of these answers | |

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| *Bodie - Chapter 01 #45 Difficulty: Easy Gradable: automatic Learning Objective: 1.5 List and describe the three main participants in the financial markets. Section: 1.5 The main participants* |

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| 46. | |  | | --- | | Individuals may find it more advantageous to purchase claims from a financial intermediary rather than directly purchasing claims in capital markets because \_\_\_\_\_\_\_\_.  I. intermediaries are better diversified than most individuals  II. intermediaries can exploit economies of scale in investing that individual investors cannot  III. intermediated investments usually offer higher rates of return than direct capital market claims |         |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | **B.** | I and II only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | I, II and III | |

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| *Bodie - Chapter 01 #46 Difficulty: Hard Gradable: automatic Learning Objective: 1.6 Discuss the role of financial intermediaries. Section: 1.6 Financial intermediaries* |

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| 47. | |  | | --- | | Surf City Software Company develops new surf forecasting software. It sells the software to Microsoft in exchange for 1000 common shares of Microsoft. Surf City Software has exchanged a \_\_\_\_\_\_\_\_ asset for a \_\_\_\_\_\_\_\_ asset in this transaction. |         |  |  | | --- | --- | | A. | real, real |  |  |  | | --- | --- | | B. | financial, financial |  |  |  | | --- | --- | | **C.** | real, financial |  |  |  | | --- | --- | | D. | financial, real | |

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| *Bodie - Chapter 01 #47 Difficulty: Medium Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| 48. | |  | | --- | | Stone Harbor Products takes out a bank loan. It receives $100 000 and signs a promissory note to pay back the loan over 5 years. |         |  |  | | --- | --- | | **A.** | A new financial asset was created in this transaction. |  |  |  | | --- | --- | | B. | A financial asset was traded for a real asset in this transaction. |  |  |  | | --- | --- | | C. | A financial asset was destroyed in this transaction. |  |  |  | | --- | --- | | D. | A real asset was created in this transaction. | |

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| *Bodie - Chapter 01 #48 Difficulty: Hard Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| 49. | |  | | --- | | Accounting scandals can often be attributed to a particular concept in the study of finance known as the \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | **A.** | agency problem |  |  |  | | --- | --- | | B. | risk-return trade-off |  |  |  | | --- | --- | | C. | allocation of risk |  |  |  | | --- | --- | | D. | securitisation | |

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| *Bodie - Chapter 01 #49 Difficulty: Easy Learning Objective: 1.3 Discuss the role of financial markets in the wider economy. Section: 1.3 The roles of financial markets in the economy* |

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| 50. | |  | | --- | | An intermediary that pools and manages funds for many investors is called a/an \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | **A.** | investment company |  |  |  | | --- | --- | | B. | savings and loan |  |  |  | | --- | --- | | C. | investment banker |  |  |  | | --- | --- | | D. | ADR | |

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| *Bodie - Chapter 01 #50 Difficulty: Easy Learning Objective: 1.6 Discuss the role of financial intermediaries. Section: 1.6 Financial intermediaries* |

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| 51. | |  | | --- | | Financial institutions that specialise in assisting corporations in primary market transactions are called \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | mutual funds |  |  |  | | --- | --- | | **B.** | investment bankers |  |  |  | | --- | --- | | C. | pension funds |  |  |  | | --- | --- | | D. | globalisation specialists | |

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| *Bodie - Chapter 01 #51 Difficulty: Easy Learning Objective: 1.6 Discuss the role of financial intermediaries. Section: 1.6 Financial intermediaries* |

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| 52. | |  | | --- | | In 2008 the largest corporate bankruptcy in US history involved the investment banking firm of \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | A. | Goldman Sachs |  |  |  | | --- | --- | | **B.** | Lehman Brothers |  |  |  | | --- | --- | | C. | Morgan Stanley |  |  |  | | --- | --- | | D. | Merrill Lynch | |

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| *Bodie - Chapter 01 #52 Difficulty: Medium Learning Objective: 1.6 Discuss the role of financial intermediaries. Section: 1.6 Financial intermediaries* |

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| 53. | |  | | --- | | The inability of shareholders to influence the decisions of managers, despite overwhelming shareholder support, is a breakdown in what process or mechanism? |         |  |  | | --- | --- | | A. | Auditing |  |  |  | | --- | --- | | B. | Public finance |  |  |  | | --- | --- | | **C.** | Corporate governance |  |  |  | | --- | --- | | D. | Public reporting | |

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| *Bodie - Chapter 01 #53 Difficulty: Medium Learning Objective: 1.3 Discuss the role of financial markets in the wider economy. Section: 1.3 The roles of financial markets in the economy* |

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| 54. | |  | | --- | | Real assets are \_\_\_\_\_\_\_\_. |         |  |  | | --- | --- | | **A.** | assets used to produce goods and services |  |  |  | | --- | --- | | B. | always the same as financial assets |  |  |  | | --- | --- | | C. | always equal to liabilities |  |  |  | | --- | --- | | D. | claims on company's income | |

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| *Bodie - Chapter 01 #54 Difficulty: Easy Learning Objective: 1.1 Distinguish between a financial asset and a real asset. Section: 1.1 Real assets versus financial assets* |

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| 55. | |  | | --- | | An investment advisor has decided to purchase gold, real estate, shares and bonds in equal amounts. This decision reflects which part of the investment process? |         |  |  | | --- | --- | | **A.** | Asset allocation |  |  |  | | --- | --- | | B. | Investment analysis |  |  |  | | --- | --- | | C. | Portfolio analysis |  |  |  | | --- | --- | | D. | Security selection | |

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| *Bodie - Chapter 01 #55 Difficulty: Medium Learning Objective: 1.4 Discuss components of the investment process. Section: 1.4 The investment process* |

Chapter 01 - Testbank Summary

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| *Category* | *# of Questions* |
| Bodie - Chapter 01 | 55 |
| Difficulty: Easy | 29 |
| Difficulty: Hard | 6 |
| Difficulty: Medium | 19 |
| Difficulty: Moderate | 1 |
| Gradable: automatic | 8 |
| Learning Objective: 1.1 Distinguish between a financial asset and a real asset. | 13 |
| Learning Objective: 1.2 Distinguish between and describe three major financial assets. | 10 |
| Learning Objective: 1.3 Discuss the role of financial markets in the wider economy. | 9 |
| Learning Objective: 1.4 Discuss components of the investment process. | 11 |
| Learning Objective: 1.5 List and describe the three main participants in the financial markets. | 1 |
| Learning Objective: 1.6 Discuss the role of financial intermediaries. | 11 |
| Section: 1.1 Real assets versus financial assets | 14 |
| Section: 1.2 Types of financial assets | 10 |
| Section: 1.3 The roles of financial markets in the economy | 9 |
| Section: 1.4 The investment process | 10 |
| Section: 1.5 The main participants | 1 |
| Section: 1.6 Financial intermediaries | 11 |