

Multiple Choice

1. Which of the following is the best definition of wealth?
 - a. The sum of all current and future income
 - b. The total of all assets and all income
 - c. The total of assets and income less any liabilities
 - d. The sum of current income and the present value of future income

Ans: d

Difficulty: Moderate

Ref: Establishing a Framework for Investors

2. Gold coins would be classified as:
 - a. real assets.
 - b. indirect assets.
 - c. personal assets.
 - d. financial assets.

Ans: a

Difficulty: Easy

Ref: Establishing a Framework for Investors

3. Technically, investments include:
 - a. only financial assets.
 - b. only marketable assets.
 - c. financial and real assets that are marketable or non-marketable.
 - d. only financial and real assets that are marketable.

Ans: c

Difficulty: Easy

Ref: Establishing a Framework for Investors

4. The retirement plans that guarantee retirees a set amount of money each month are known as:
 - a. 401(k) plans.
 - b. self-directed plans.
 - c. defined-benefit plans.
 - d. defined-contribution plans.

Ans: c

Difficulty: Moderate

Ref: Establishing a Framework for Investors

5. The investment professionals that arrange the sale of new securities are called:
- a. arbitragers.
 - b. traders.
 - c. investment bankers.
 - d. specialists.

Ans: c

Difficulty: Moderate

Ref: The Importance of Studying Investments

6. Another name for stockbrokers is:
- a. specialists.
 - b. financial advisors.
 - c. security analysts.
 - d. portfolio managers.

Ans: b

Difficulty: Moderate

Ref: The Importance of Studying Investments

7. Investment professionals who take companies public, arrange mergers and acquisitions, and participate in municipal bond issues are:
- a. registered representatives.
 - b. security analysts.
 - c. investment bankers.
 - d. portfolio managers.

Ans: c

Difficulty: Moderate

Ref: The Importance of Studying Investments

8. One reason for the declining importance of pension funds is the:
- a. decrease in pension benefits for workers.
 - b. downsizing of U.S. companies.
 - c. large number of conversions into self-directed plans.
 - d. increasing number of federal regulations that restrict pension fund portfolios.

Ans: c

Difficulty: Difficult

Ref: The Importance of Studying Investments

9. Most financial advisors are registered with the Securities and Exchange Commission as:
- a. registered representatives.
 - b. registered investment advisors.
 - c. registered financial planners.
 - d. registered securities consultants.

Ans: b

Difficulty: Moderate

Ref: The Importance of Studying Investments

10. A Chartered Financial Analyst designation is a(n)
- a. SEC-approved and awarded designation.
 - b. certification of a successful investing record.
 - c. professional designation awarded for meeting recognized standards of conduct and competency.
 - d. professional designation awarded by the brokerage industry.

Ans: c

Difficulty: Easy

Ref: The Importance of Studying Investments

11. Underlying all investments is the tradeoff between:
- a. expected return and actual return.
 - b. low risk and high risk.
 - c. actual return and high risk.
 - d. expected return and risk.

Ans: d

Difficulty: Moderate

Ref: Understanding the Investment Decision Process

12. Which of the following investment areas relies heavily on mathematical and statistical models?
- a. Security analysis
 - b. Portfolio management
 - c. Institutional investing
 - d. Retirement planning

Ans: b

Difficulty: Moderate

Ref: Understanding the Investment Decision Process

13. Most investors are risk averse, which means:
- a. they will assume more risk only if they are compensated by higher expected return.
 - b. they will always invest in the investment with the lowest possible risk.
 - c. they actively seek to minimize their risks.
 - d. they avoid the stock market due to the high degree of risk.

Ans: a

Difficulty: Moderate

Ref: Understanding the Investment Decision Process

14. Which of the following would be considered a risk-free investment?
- a. Gold
 - b. Equity in a house
 - c. High-grade corporate bonds
 - d. U.S. Treasury bills

Ans: d

Difficulty: Easy

Ref: Understanding the Investment Decision Process

15. Security analysis is most concerned with:
- a. analysis of the overall securities market and its direction.
 - b. valuation and analysis of individual securities.
 - c. purchasing securities at the best price.
 - d. determination of the investor's required return.

Ans: b

Difficulty: Moderate

Ref: Understanding the Investment Decision Process

16. In general, the ex ante risk-return tradeoff:
- a. slopes upward.
 - b. slopes downward.
 - c. is flat.
 - d. is impossible to determine.

Ans: a

Difficulty: Moderate

Ref: Understanding the Investment Decision Process

17. International investing:
- a. is only practical for institutional investors.
 - b. increases the overall risk of a stock portfolio.
 - c. always leads to higher returns than a domestic portfolio.
 - d. can reduce risk due to increased diversification.

Ans: d

Difficulty: Moderate

Ref: Understanding the Investment Decision Process

18. Investment decision making traditionally consists of two steps:
- a. investment banking and security analysis.
 - b. buying and selling.
 - c. risk and expected return.
 - d. security analysis and portfolio management.

Ans: d

Difficulty: Difficult

Ref: Understanding the Investment Decision Process

19. Which of the following statements concerning global stock market capitalization is true?
- a. The United States accounts for roughly 65 percent of stock market capitalization worldwide.
 - b. The United States accounts for roughly 40 percent of stock market capitalization worldwide.
 - c. The United States accounts for roughly 25 percent of stock market capitalization.
 - d. It is expected that the United States will increase its future percentage of global stock market capitalization.

Ans: b

Difficulty: Moderate

Ref: Important Considerations in the Investment Decision Process for Today's Investor

20. Regulation FD applies to disclosure between:
- a. private companies and public officials.
 - b. public companies and investment professionals.
 - c. public companies and public officials.
 - d. private companies and investment professionals.

Ans: b

Difficulty: Moderate

Ref: Important Considerations in the Investment Decision Process for Today's Investor

21. Which of the following statements is true regarding multi-national corporations?
- a. Exxon Mobil earns the majority of its profits from its overseas operations.
 - b. Google currently derives the majority of its earnings from outside the U.S.
 - c. Wal-Mart earns the majority of its profits from outside the U.S.
 - d. Coca-Cola has no overseas operations and no earnings outside the U.S.

Ans: a

Difficulty: Difficult

Ref: Important Considerations in the Investment Decision Process for Today's Investor

22. The rise of the Internet has:
- a. greatly increased the cost of security trading.
 - b. significantly democratized the flow of investment information.
 - c. led to fewer discount brokers.
 - d. led to large amounts of security fraud.

Ans: b

Difficulty: Moderate

Ref: Important Considerations in the Investment Decision Process for Today's Investor

23. Which of the following professionals would be considered an institutional investor?
- a. Investment banker
 - b. Security analyst
 - c. Stockbroker
 - d. Portfolio manager

Ans: d

Difficulty: Difficult

Ref: Important Considerations in the Investment Decision Process for Today's Investor

24. The risk-free rate of return (RF) equals:
- a. 0.0%.
 - b. the rate on the bonds of financially sound corporations.
 - c. the average of the last 3 years' inflation rate.
 - d. the return on Treasury securities.

Ans: d

Difficulty: Difficult

Ref: Important Considerations in the Investment Decision Process for Today's Investor

25. Which of the following is *not* a benefit of geographic diversification?
- Gaining exposure to currencies other than the U.S. dollar.
 - Some global markets have growth rates higher than the U.S., offering potentially higher returns.
 - Global markets behave completely independently of U.S. markets.
 - Many global markets are not highly correlated with U.S. markets.

Ans: c

Difficulty: Difficult

Ref: Important Considerations in the Investment Decision Process for Today's Investor

True-False Questions

1. A 401(k) plan is an example of a defined-benefit retirement plan.

Ans: False

Difficulty: Moderate

Ref: The Importance of Studying Investments

2. Investors always seek to minimize their risk of investing.

Ans: False

Difficulty: Moderate

Ref: Understanding the Investment Decision Process

3. Both 401(k) plans and IRAs are self-directed retirement plans.

Ans: True

Difficulty: Easy

Ref: Understanding the Investment Decision Process

4. The two major considerations in investing are return and timing.

Ans: False

Difficulty: Easy

Ref: Understanding the Investment Decision Process

5. Risk is defined as the possibility of loss.

Ans: False

Difficulty: Difficult

Ref: Understanding the Investment Decision Process

6. The minimum actual return necessary to induce investors to invest is known as the expected return.

Answer: False
Difficulty: Difficult
Ref: Understanding the Investment Decision Process

7. Investors unwilling to assume risk should be satisfied with the rate of inflation as their investment return.

Answer: False
Difficulty: Difficult
Ref: Understanding the Investment Decision Process

8. Security analysts are typically employed only at brokerage houses.

Answer: False
Difficulty: Moderate
Ref: Importance of Studying Investments

9. Financial planners must pass a standardized test and possess certain credentials.

Ans: False
Difficulty: Easy
Ref: Importance of Studying Investments

10. Many Wall Street jobs tend to be cyclical in nature.

Ans: True
Difficulty: Easy
Ref: Importance of Studying Investments

11. Due to the Internet, institutional investors have gained in importance.

Ans: False
Difficulty: Difficult
Ref: Important Considerations in the Investment Decision Process for Today's Investor

Short-Answer Questions

1. Briefly explain the difference between expected returns and realized returns and between ex ante returns and ex post returns.

Answer: Expected returns are mean returns based on probability distributions dealing with the future. Realized returns are the returns that actually occurred in the past. Ex ante returns are in the future. Ex post returns are in the past.

Difficulty: Moderate