

*Essentials of Investments, 11e (Bodie)*  
**Chapter 1 Investments: Background and Issues**

- 1) Financial assets represent \_\_\_\_\_ of total assets of U.S. households.  
A) under 70%  
B) over 90%  
C) under 10%  
D) about 30%

Answer: A

Difficulty: 1 Easy

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

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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 stock

Answer: D

Difficulty: 1 Easy

Topic: Real Assets versus Financial Assets

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- 3) Net worth represents \_\_\_\_\_ of the liabilities and net worth of commercial banks.  
A) about 51%  
B) about 91%  
C) about 11%  
D) about 31%

Answer: C

Difficulty: 2 Medium

Topic: Financial Intermediaries

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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4) According to the *Flow of Funds Accounts of the United States*, the largest single asset of U.S. households is \_\_\_\_\_.

- A) mutual fund shares
- B) real estate
- C) pension reserves
- D) corporate equity

Answer: B

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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5) According to the *Flow of Funds Accounts of the United States*, the largest liability of U.S. households is \_\_\_\_\_.

- A) mortgages
- B) consumer credit
- C) bank loans
- D) gambling debts

Answer: A

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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6) \_\_\_\_\_ is *not* a derivative security.

- A) A share of common stock
- B) A call option
- C) A futures contract
- D) None of the options (All of the answers are derivative securities.)

Answer: A

Difficulty: 1 Easy

Topic: Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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7) According to the *Flow of Funds Accounts of the United States*, the largest financial asset of U.S. households is \_\_\_\_\_.

- A) mutual fund shares
- B) corporate equity
- C) pension reserves
- D) deposits

Answer: C

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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8) 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 overvalued securities.
- A) I only
  - B) I and II only
  - C) II and III only
  - D) I, II, and III

Answer: D

Difficulty: 3 Hard

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

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9) 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

Answer: D

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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10) Which of the following is *not* a money market security?

- A) U.S. Treasury bill
- B) 6-month maturity certificate of deposit
- C) common stock
- D) All of the options.

Answer: C

Difficulty: 2 Medium

Topic: Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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11) \_\_\_\_\_ 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

Answer: C

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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12) 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

Answer: D

Difficulty: 3 Hard

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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13) \_\_\_\_\_ are examples of financial intermediaries.

- A) Commercial banks
- B) Insurance companies
- C) Investment companies
- D) All of the options

Answer: D

Difficulty: 1 Easy

Topic: Financial Intermediaries

Learning Objective: 01-05 Identify different types of financial markets and the major participants in each of those markets.

Bloom's: Remember

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14) *Asset allocation* refers to \_\_\_\_\_.

- A) the allocation of the investment portfolio across broad asset classes
- B) the analysis of the value of securities
- C) the choice of specific assets within each asset class
- D) none of the options

Answer: A

Difficulty: 1 Easy

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

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15) 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.

Answer: A

Difficulty: 2 Medium

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

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16) *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

Answer: C

Difficulty: 2 Medium

Topic: The Investment Process

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Bloom's: Remember

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17) Which of the following is an example of an agency problem?

- A) Managers engage in empire building.
- B) Managers protect their jobs by avoiding risky projects.
- C) Managers overconsume luxuries such as corporate jets.
- D) All of the options are examples of agency problems.

Answer: D

Difficulty: 1 Easy

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

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18) \_\_\_\_\_ is a mechanism for mitigating potential agency problems.

- A) Tying income of managers to success of the firm
- B) Directors defending top management
- C) Antitakeover strategies
- D) All of the options.

Answer: A

Difficulty: 3 Hard

Topic: Financial Markets and the Economy

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19) \_\_\_\_\_ is (are) real assets.

- A) Bonds
- B) Production equipment
- C) Stocks
- D) Life insurance

Answer: B

Difficulty: 1 Easy

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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20) \_\_\_\_\_ portfolio construction starts with selecting attractively priced securities.

- A) Bottom-up
- B) Top-down
- C) Upside-down
- D) Side-to-side

Answer: A

Difficulty: 1 Easy

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

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- 21) In a market economy, capital resources are primarily allocated by \_\_\_\_\_.
- A) governments
  - B) corporation CEOs
  - C) financial markets
  - D) investment bankers

Answer: C

Difficulty: 1 Easy

Topic: Financial Markets and the Economy

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- 22) \_\_\_\_\_ represents an ownership share in a corporation.
- A) A call option
  - B) Common stock
  - C) A fixed-income security
  - D) Preferred stock

Answer: B

Difficulty: 1 Easy

Topic: Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

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

Answer: A

Difficulty: 1 Easy

Topic: Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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24) Commodity and derivative markets allow firms to adjust their \_\_\_\_\_.

- A) management styles
- B) focus from their main line of business to their investment portfolios
- C) ways of doing business so that they'll always have positive returns
- D) exposure to various business risks

Answer: D

Difficulty: 1 Easy

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

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25) \_\_\_\_\_ 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

Answer: C

Difficulty: 1 Easy

Topic: Efficient Markets

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

AACSB: Analytical Thinking

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26) Financial markets allow for all but which one of the following?

- A) shift consumption through time from higher-income periods to lower
- B) price securities according to their riskiness
- C) channel funds from lenders of funds to borrowers of funds
- D) allow most participants to routinely earn high returns with low risk

Answer: D

Difficulty: 2 Medium

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

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- 27) Financial intermediaries exist because small investors cannot efficiently \_\_\_\_\_.
- A) diversify their portfolios
  - B) gather information
  - C) assess and monitor the credit risk of borrowers
  - D) all of the options

Answer: D

Difficulty: 1 Easy

Topic: Financial Intermediaries

Learning Objective: 01-05 Identify different types of financial markets and the major participants in each of those markets.

Bloom's: Remember

AACSB: Analytical Thinking

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- 28) Methods of encouraging 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 stock price performance.
- A) I only
  - B) I and II only
  - C) II and III only
  - D) I, II, and III

Answer: D

Difficulty: 1 Easy

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

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29) Firms that specialize in helping companies raise capital by selling securities to the public are called \_\_\_\_\_.

- A) pension funds
- B) investment banks
- C) savings banks
- D) REITs

Answer: B

Difficulty: 1 Easy

Topic: Financial Intermediaries

Learning Objective: 01-05 Identify different types of financial markets and the major participants in each of those markets.

Bloom's: Remember

AACSB: Analytical Thinking

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30) 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) The answer cannot be determined from the information given.

Answer: A

Difficulty: 1 Easy

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

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31) When the market is more optimistic about a firm, its share price will \_\_\_\_\_; as a result, it will need to issue \_\_\_\_\_ shares to raise funds that are needed.

- A) rise; fewer
- B) fall; fewer
- C) rise; more
- D) fall; more

Answer: A

Difficulty: 1 Easy

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

32) *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

Answer: A

Difficulty: 1 Easy

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

33) An example of a derivative security is \_\_\_\_\_.

- A) a common share of General Motors
- B) a call option on Intel stock
- C) a Ford bond
- D) a U.S. Treasury bond

Answer: B

Difficulty: 1 Easy

Topic: Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

34) \_\_\_\_\_ portfolio construction starts with asset allocation.

- A) Bottom-up
- B) Top-down
- C) Upside-down
- D) Side-to-side

Answer: B

Difficulty: 1 Easy

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

35) Which one of the following firms falsely claimed to have a \$4.8 billion bank account, eventually resulting in the firm's bankruptcy?

- A) WorldCom
- B) Enron
- C) Parmalat
- D) Global Crossing

Answer: C

Difficulty: 2 Medium

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

36) 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

Answer: B

Difficulty: 2 Medium

Topic: Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

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37) The Sarbanes-Oxley Act tightened corporate governance rules by requiring all but which one of the following?

- A) Required that corporations have more independent directors.
- B) Required that the CFO personally vouch for the corporation's financial statements.
- C) Required that firms could no longer employ investment bankers to sell securities to the public.
- D) Required the creation of a new board to oversee the auditing of public companies.

Answer: C

Difficulty: 2 Medium

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

38) The success of common stock 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

Answer: C

Difficulty: 1 Easy

Topic: Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

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39) The historical average rate of return on large company stocks since 1926 has been \_\_\_\_\_.

- A) almost 5%
- B) almost 8%
- C) almost 12%
- D) almost 20%

Answer: C

Difficulty: 2 Medium

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

AACSB: Analytical Thinking

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- 40) The average rate of return on U.S. Treasury bills since 1926 was \_\_\_\_\_.
- A) less than 1%
  - B) less than 3%
  - C) less than 4%
  - D) less than 7%

Answer: C

Difficulty: 2 Medium

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

AACSB: Analytical Thinking

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- 41) 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

Answer: D

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

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Bloom's: Remember

AACSB: Analytical Thinking

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- 42) The 2002 law designed to improve corporate governance is titled the \_\_\_\_\_.
- A) Pension Reform Act
  - B) ERISA
  - C) Financial Services Modernization Act
  - D) Sarbanes-Oxley Act

Answer: D

Difficulty: 1 Easy

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

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43) 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 credit union

Answer: C

Difficulty: 2 Medium

Topic: Financial Intermediaries

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

44) The combined liabilities of American households represent approximately \_\_\_\_\_ of combined assets.

- A) 11%
- B) 14%
- C) 25%
- D) 33%

Answer: B

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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45) In real assets represented approximately \_\_\_\_\_ of the total asset holdings of American households.

- A) 30%
- B) 42%
- C) 48%
- D) 55%

Answer: A

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

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46) In 2017 mortgages represented approximately \_\_\_\_\_ of total liabilities and net worth of American households.

- A) 10%
- B) 14%
- C) 28%
- D) 42%

Answer: A

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

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47) Liabilities equal approximately \_\_\_\_\_ of total assets for nonfinancial U.S. businesses.

- A) 10%
- B) 25%
- C) 45%
- D) 75%

Answer: C

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

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48) Which of the following is *not* an example of a financial intermediary?

- A) Goldman Sachs
- B) Allstate Insurance
- C) First Interstate Bank
- D) IBM

Answer: D

Difficulty: 1 Easy

Topic: Financial Intermediaries

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

49) Real assets represent about \_\_\_\_\_ of total assets for commercial banks.

- A) 1%
- B) 15%
- C) 25%
- D) 40%

Answer: A

Difficulty: 2 Medium

Topic: Financial Intermediaries

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

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50) Money market securities are characterized by:

- I. Maturity less than 1 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

Answer: D

Difficulty: 1 Easy

Topic: Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

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51) After much investigation, an investor finds that Intel stock is currently underpriced. This is an example of \_\_\_\_\_.

- A) asset allocation
- B) security analysis
- C) top-down portfolio management
- D) passive management

Answer: B

Difficulty: 2 Medium

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

52) After considering current market conditions, an investor decides to place 60% of her 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

Answer: A

Difficulty: 2 Medium

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

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53) Suppose an investor is considering one of two investments that are identical in all respects except for risk. If the investor anticipates a fair return for the risk of the security he invests in, he can expect to \_\_\_\_\_.

- A) earn no more than the Treasury-bill 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.

Answer: B

Difficulty: 3 Hard

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

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- 54) The efficient market 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

Answer: B

Difficulty: 1 Easy

Topic: The Investment Process

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Bloom's: Remember

AACSB: Analytical Thinking

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- 55) In a perfectly efficient market the best investment strategy is probably \_\_\_\_\_.
- A) an active strategy
  - B) a passive strategy
  - C) asset allocation
  - D) market timing

Answer: B

Difficulty: 1 Easy

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

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- 56) Market signals will help to allocate capital efficiently only if investors are acting \_\_\_\_\_.
- A) on the basis of their individual hunches
  - B) as directed by financial experts
  - C) as dominant forces in the economy
  - D) on accurate information

Answer: D

Difficulty: 1 Easy

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

57) Which of the following is (are) true about hedge funds?

- I. They are open to institutional investors.
  - II. They are open to wealthy individuals.
  - III. They are more likely than mutual funds to pursue simple strategies.
- A) I and II only
  - B) I and III only
  - C) II and III only
  - D) I, II, and III

Answer: A

Difficulty: 2 Medium

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

AACSB: Analytical Thinking

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58) Venture capital is \_\_\_\_\_.

- A) frequently used to expand the businesses of well-established companies
- B) supplied by venture capital funds and individuals to start-up companies
- C) illegal under current U.S. laws
- D) most frequently issued with the help of investment bankers

Answer: B

Difficulty: 2 Medium

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

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59) 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

Answer: B

Difficulty: 3 Hard

Topic: Financial Intermediaries

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Bloom's: Remember

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60) Surf City Software Company develops new surf forecasting software. It sells the software to Microsoft in exchange for 1,000 shares of Microsoft common stock. 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

Answer: C

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

61) 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. In this transaction, \_\_\_\_\_.

- A) a new financial asset was created
- B) a financial asset was traded for a real asset
- C) a financial asset was destroyed
- D) a real asset was created

Answer: A

Difficulty: 2 Medium

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

62) Which of the following firms was *not* engaged in a major accounting scandal between 2000 and 2005?

- A) General Electric
- B) Parmalat
- C) Enron
- D) WorldCom

Answer: A

Difficulty: 1 Easy

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

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63) 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) securitization

Answer: A

Difficulty: 1 Easy

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

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- 64) An intermediary that pools and manages funds for many investors is called \_\_\_\_\_.
- A) an investment company
  - B) a credit union
  - C) an investment banker
  - D) a commercial bank

Answer: A

Difficulty: 1 Easy

Topic: Financial Intermediaries

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

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- 65) Financial institutions that specialize in assisting corporations in primary market transactions are called \_\_\_\_\_.
- A) mutual funds
  - B) investment bankers
  - C) pension funds
  - D) globalization specialists

Answer: B

Difficulty: 1 Easy

Topic: Financial Intermediaries

Learning Objective: 01-02 Distinguish between real assets and financial assets.

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- 66) When a pass-through mortgage security is issued, what does the issuing agency expect to receive?
- A) the amount of the original loan plus a servicing fee
  - B) the principal and interest that are paid by the homeowner
  - C) the principal and interest that are paid by the homeowner, minus a servicing fee
  - D) the interest paid by the homeowner, plus a servicing fee

Answer: C

Difficulty: 2 Medium

Topic: The Financial Crisis of 2008

Learning Objective: 01-06 Explain the causes and consequences of the financial crisis of 2008.

Bloom's: Remember

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67) In 2008 the largest corporate bankruptcy in U.S. history involved the investment banking firm of \_\_\_\_\_.

- A) Goldman Sachs
- B) Lehman Brothers
- C) Morgan Stanley
- D) Merrill Lynch

Answer: B

Difficulty: 2 Medium

Topic: The Financial Crisis of 2008

Learning Objective: 01-06 Explain the causes and consequences of the financial crisis of 2008.

Bloom's: Remember

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68) 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

Answer: C

Difficulty: 2 Medium

Topic: Financial Markets and the Economy

Learning Objective: 01-03 Explain the economic functions of financial markets and how various securities

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

69) 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 a company's income

Answer: A

Difficulty: 1 Easy

Topic: Real Assets versus Financial Assets

Learning Objective: 01-02 Distinguish between real assets and financial assets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 70) A major cause of the mortgage market meltdown in 2007 and 2008 was linked to \_\_\_\_\_.
- A) private equity investments
  - B) securitization
  - C) negative analyst recommendations
  - D) online trading

Answer: B

Difficulty: 2 Medium

Topic: The Financial Crisis of 2008

Learning Objective: 01-06 Explain the causes and consequences of the financial crisis of 2008.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 71) In recent years the greatest dollar amount of securitization occurred for which type of loan?
- A) home mortgages
  - B) credit card debt
  - C) automobile loans
  - D) equipment leasing

Answer: A

Difficulty: 2 Medium

Topic: The Financial Crisis of 2008

Learning Objective: 01-06 Explain the causes and consequences of the financial crisis of 2008.

Bloom's: Remember

AACSB: Analytical Thinking

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- 72) Which of the following is (are) true about nonconforming mortgage loans?
- A) They are also known as *subprime loans*.
  - B) They have higher default risk than conforming loans.
  - C) They were able to be offered without due diligence.
  - D) All of the options are true.

Answer: D

Difficulty: 2 Medium

Topic: The Financial Crisis of 2008

Learning Objective: 01-06 Explain the causes and consequences of the financial crisis of 2008.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

73) The systemic risk that led to the financial crisis of 2008 was increased by \_\_\_\_\_.

- A) collateralized debt obligations
- B) subprime mortgages
- C) credit default swaps
- D) all of the options

Answer: D

Difficulty: 2 Medium

Topic: The Financial Crisis of 2008

Learning Objective: 01-06 Explain the causes and consequences of the financial crisis of 2008.

Bloom's: Remember

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74) An investment adviser has decided to purchase gold, real estate, stocks, 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

Answer: A

Difficulty: 2 Medium

Topic: The Investment Process

Learning Objective: 01-04 Describe the major steps in the construction of an investment portfolio.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

75) The Volcker Rule

- A) prohibits banks from proprietary trading.
- B) restricts banks' investments in hedge funds.
- C) restricts banks' investments in private equity funds.
- D) All of the options.

Answer: D

Difficulty: 2 Medium

Topic: The Financial Crisis of 2008

Learning Objective: 01-06 Explain the causes and consequences of the financial crisis of 2008.

Bloom's: Remember

AACSB: Analytical Thinking

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76) Until 1999, the \_\_\_\_\_ Act separated commercial banking and investment banking activities.

- A) Dodd-Frank Wall Street Reform and Consumer Protection
- B) Sarbanes-Oxley
- C) Glass-Steagall
- D) Volcker Rule

Answer: C

Difficulty: 2 Medium

Topic: The Financial Crisis of 2008

Learning Objective: 01-06 Explain the causes and consequences of the financial crisis of 2008.

Bloom's: Remember

AACSB: Analytical Thinking

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77) The difference between LIBOR and the Treasury-bill rate

- A) is called the TED spread.
- B) measures credit risk in the banking sector.
- C) was very low just before the 2008 financial crisis.
- D) All of the options.

Answer: D

Difficulty: 2 Medium

Topic: The Financial Crisis of 2008

Learning Objective: 01-06 Explain the causes and consequences of the financial crisis of 2008.

Bloom's: Remember

AACSB: Analytical Thinking

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78) The Dodd-Frank Reform Act does all of the following except:

- A) reduces capital requirements for banks.
- B) increases transparency in the derivatives market
- C) limits the risk-taking in which banks can engage
- D) requires public companies to set "claw-back" provisions
- E) creates an office within the SEC to oversee credit rating agencies.

Answer: A

Difficulty: 2 Medium

Topic: The Financial Crisis of 2008

Learning Objective: 01-06 Explain the causes and consequences of the financial crisis of 2008.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

79) Which insurance company sold more than \$400 billion of CDS contracts on subprime mortgages prior to the 2008 market crash?

- A) Metlife
- B) AIG
- C) Northwestern Mutual
- D) New York Life

Answer: B

Difficulty: 2 Medium

Topic: The Financial Crisis of 2008

Learning Objective: 01-06 Explain the causes and consequences of the financial crisis of 2008.

Bloom's: Remember

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