Solution:

1. **B is correct.** The service that dealers provide is liquidity. Liquidity is the ability to buy or sell with low transaction costs when investors want to trade. By allowing their clients to trade when they want to trade, dealers provide liquidity to them. A is incorrect. Brokers are agents who fill orders for their clients. They do not trade with their clients. C is incorrect. Exchanges provide places where traders and dealers can meet to arrange their trades.

2. **A is correct.** Option contracts can be viewed as limit orders for which execution is guaranteed at the strike price. Therefore, a put buy order at a strike price of $25 will guarantee selling the stock at $25.C is incorrect. A "GTC, stop $25, market sell" order becomes a market order when the price drops to or below $25 and is executed at the best price available in the market. Thus, the selling price of $25 is not guaranteed. B is incorrect. A "GTC, stop $25, limit $25 sell" order limits the lower boundary to $25 but it does not guarantee execution at $25; in a fast-moving market prices may have dropped below the limit and the order will then not be executed.

3. **A is correct.** Regulators help solve agency problems by setting minimum standards of competence, not skill, for agents and by defining and enforcing minimum standards of practice. B is incorrect. One of the objectives of market regulation is to promote fair and orderly markets in which traders can trade at prices that accurately reflect fundamental values. C is incorrect. Regulators ensure that systems are in place to protect customers from fraud.

4. **B is correct.** Market indexes are used as benchmarks for actively managed portfolios, which is not relevant to passively managed funds. A Is incorrect. Market indexes are used as proxies to measure systematic risk. The use is relevant to passively managed funds. C is incorrect. Market indexes are used as model portfolios to develop new ETFs. The use is relevant to these portfolio managers as some emerging markets are not easily accessible for direct investments.

5. **C is correct.** Because regulated markets are more informationally efficient, there are fewer arbitrage opportunities. A is incorrect. Regulated markets tend to be more

operationally efficient, which leads to lower transactions costs. B is incorrect. Regulations help to level the playing field for market participants. When participants believe that markets are fair, they continue to trade in the market, thus increasing trading volumes.