1. In this module we defined financial intermediaries as institutions that facilitate between suppliers and borrowers of capital. Which of the following is **NOT** a financial intermediary?

    a) Insurance company
    No. Insurance companies are an example of financial intermediaries.
    b) Investment company
    No, that is not correct. Investment companies facilitate capital between providers and demanders of capital.
    c) Pension fund
    No, pension funds are a type of financial intermediary.
    d) Credit Unions
    No, credit unions are a type of financial intermediary.
    e) None of the above.
    Yes, that is the correct answer. All of the institutions listed above play a role in facilitating the flow of capital between savers and borrowers.

    Answer:

    The correct answer is **e**.

2. Which of the following is true?

    a) Open-end funds will redeem shares for asset value at the request of the investor. Closed-end funds do not redeem shares and are traded like other securities.

    Yes, this statement is correct. Investors in open-end funds can cash out by selling them back to the fund at the net asset value. Investors in closed-end funds who wish to cash out must sell their securities to other investors.

    b) Share price of a closed end fund can often deviate from its net asset value.

    Yes, this statement is correct. Closed end funds can often trade at a premium or discount relative to net asset value. Any others?

    c) Hedge funds are subject to much less regulation than mutual funds.

    Yes, that is a correct statement. Hedge funds are like mutual funds in that they allow private investors to pool assets to be invested by a fund manager. They are subject to minimal SEC regulation and are therefore only open to wealthy or institutional investors.

d) Unlike mutual funds which can be traded only at the end of the day when net asset value is calculated, exchange-traded funds can be traded throughout the day like any other share of stock.

Yes, that is a correct statement.

e) All of the above.

Answer:

The correct answer is **e**.

3. If you decide to sell your Facebook shares to another investor...

a) This is a transaction that takes places in the primary market.

No. this is not correct. Primary market is the market where companies issue securities for the first time. Revisit the lecture on primary and secondary markets around 2:00.

b) This is a transaction that takes place in the secondary market.

Yes, that is correct.

c) This transaction will have an impact on the total number of outstanding shares of Facebook.

No, this is not correct. This type of transaction does not change the total number of outstanding shares.

d) Both b and are c are correct.

No, C is not a correct statement. Revisit the lecture on primary and secondary markets around 2:00.

Answer:

The correct answer is **b**.

4. Which of these statements are true?

a) A private placement is easier and less costly to a private firm compared to an IPO.

Yes, that is correct. Private placements do not require as much information and have easier registration requirements.

b) Private placements can be used by both private and public firms that wish to raise funds from a limited number of investors.

   Yes, that is correct. Private placements can be used by both private and public firms. What makes them a private placement is the fact that the securities are not offered to public at large but only to a small limited number of investors.

c) Privately placed shares are traded on exchanges.

   No, that is not correct. Private placements are not public issues and are not traded.

d) Private placements often lead to seasoned equity offerings.

   No, that is not correct. Private placements are not public offerings. So a firm would still have to do an initial public offering before they would do a seasoned equity offering.

Answer:

The correct answers are **a** and **b**.

5. Which of the following is true about the IPO process?

   a) The entire offering by the issuing company has to be purchased by the underwriter.

      No, that is not correct. The underwriter is not obligated to purchase the entire offering. It only does so, if the offer is a firm commitment.

   b) The underwriter can either purchase the entire offering from the issuing company or only facilitate the sale of shares to the public.

      Yes, that is correct. The underwriter can choose to do either a firm commitment or best effort. In the latter, the underwriter does not purchase the offer but help sell the offer to the public.

   c) The return on an IPO is always guaranteed.

      No, the return on an IPO is not guaranteed.

   d) Both b and c are correct.

      No, b is correct, but c is not.

Answer:

The correct answer is **b**.