Homework 6

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Chapter 11

1. Newly created securities are sold in the **primary market**.
2. Existing securities are traded **in the secondary markets**.
3. Investment banks engage in which of the following activities?
    - **mergers and acquisitions**
4. Which of the following *is not* a basic type of member of the New York Stock Exchange?
    - **security regulators**
5. Floor brokers **act as agents to execute customers' orders for securities purchases and sales**.
6. A person who facilitates market transactions by selling (buying) when other investors wish to buy (sell) is called a **market maker**.
7. The brokers who handle the house broker's overflow are called **independent brokers**.
8. The Federal Reserve System and the New York Stock Exchange regulations currently require the short seller to have an initial margin of at least **50%** of the price of the stock.
9. **A limit order** is the maximum purchase price or minimum selling price specified by an investor.
10. If the value of the securities that you borrowed money from your broker to purchase falls, you may receive a **margin call**.
11. The price for which the owner is willing to sell the security is called the **ask price**.
12. A trade in the multiple of 100 shares is called a **round lot**.
13. An order for *immediate purchase* or sale at the best possible price is called a **market order**.
14. The seller of an option contract is called an **option writer** and the price paid for the option itself is the called the **option premium**.
15. Over-the-counter (OTC) trades take place **on the floor of the NASDAQ Stock Exchange**.
16. Insider trading laws regulate the behavior of **anyone with nonpublic information about a firm**.

Chapter 12

17. The square root of variance is called the **standard deviation**.
18. The **lower** the coefficient of variation, the **lower** the risk.
19. If the variance for Stock A is greater than the variance for Stock B, then the standard deviation for Stock A **is greater than the standard deviation for Stock B**.
20. The effect on revenues and expenses from variations in the value of the U.S. dollar in terms of other currencies is called **exchange rate risk**.

21. If a person requires greater return when risk increases, that person is said to be **risk averse**.
22. Which one of the following assets has historically had the highest average annual return?
    - **Common stocks**
23. The benefits of diversification are greatest when asset returns have **zero correlations**.
24. In comparing the deviations of returns, which one of the following assets has historically had the largest standard deviation of annual returns?
    - **Large company stocks**
25. If one were to rank different assets from *highest* to *lowest* the basis of average historical return, the ranking would be **large company stocks, long-term corporate bonds, long term government bonds, US Treasury bills**.