## Review Questions

9.

What are the most common ways for start-up firms to raise financial capital?

10.

Why can firms not just use their own profits for financial capital, with no need for outside investors?

11.

Why are banks more willing to lend to well-established firms?

12.

What is a bond?

13.

What does a share of stock represent?

14.

When do firms receive money from a stock sale in their firm and when do they not receive money?

15.

What is a dividend?

16.

What is a capital gain?

17.

What is the difference between a private company and a public company?

18.

How do the shareholders who own a company choose the actual company managers?

19.

Why are banks called “financial intermediaries”?

20.

Name several different kinds of bank account. How are they different?

21.

Why are bonds somewhat risky to buy, even though they make predetermined payments based on a fixed rate of interest?

22.

Why should a financial investor care about diversification?

23.

What is a mutual fund?

24.

What is an index fund?

25.

How is buying a house to live in a type of financial investment?

26.

Why is it hard to forecast future movements in stock prices?

27.

What are the two key choices U.S. citizens need to make that determines their relative wealth?

28.

Is investing in housing always a very safe investment?