

25/01 560 FINANCIAL MARKETS

Course Overview

M1: Credit Risk and Financing

M2: Return and Volatility

M3: Correlation

M4: Leverage and Nonlinearity

M5: Liquidity and Regulation

M6: Model Failure and Crises

FM Forum M6

LESSON 1: THE BALANCE SHEET: LEVERAGE AND DEFAULT

Required Readings

Lesson Notes

LESSON 2: DEBT AND EQUITY FINANCING: HOUSING DEVELOPMENT EXAMPLE

Required Readings

Lesson Notes

LESSON 3: THE HOUSING FINANCE PROBLEM AND ITS SOLUTIONS

Required Readings

Lesson Notes

LESSON 4: MORE THAN ONE WAY TO PICK A STOCK

Required Readings

Lesson Notes

MODULE 6 SUMMARY

Model Failure and Crises Screencast

ASSESSMENTS

FM Practice Quiz M6

FM Graded Quiz M6

M7: Integrating Ethics with Financial Challenges

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## FM Practice Quiz M6

Question 1

According to "The Financialization of Rented Homes: Continuity and Change in Housing Financialization.", how does the financialization of rental housing differ from the financialization of homeownership in terms of its impact on housing supply?

- ☐ Both forms of financialization primarily increase housing demand rather than supply
- ☐ Rental financialization incentivizes increasing housing supply while homeownership financialization primarily boosts demand
- ☒ Rental financialization decreases housing supply while homeownership financialization increases it
- ☐ Neither form of financialization has a significant impact on housing supply
- ☒ No, rental financialization incentivizes increasing housing supply while homeownership financialization primarily boosts demand

QUESTIONS

- 1 2 3 4 5
- 6 7 8 9 10
- 11 12 13 14 15
- 16 17 18 19 20

Question 2

According to "Recourse Structure of Mortgages: A Comparison between the US and Europe", which of the following best explains the difference in approach to insolvency between the United States and continental European countries in the 1930s?

- ☐ US law favored specific performance while European law preferred assessing damages
- ☒ US law viewed insolvency as an unavoidable outcome of normal risk-taking behavior while European law generally viewed it as a moral failing
- ☐ US law had a more rigid approach to contracts compared to European law
- ☐ European countries had a stronger commitment to social welfare compared to the US
- ☒ This is correct!

Question 3

Which of the following is NOT a typical form of financing for real estate developers?

- ☒ Personal savings accounts
- ☐ Real Estate Investment Trusts (REITs)
- ☐ Bank loans
- ☐ Bonds
- ☒ This is correct!

Question 4

According to "Equity Research: Fundamental and Technical Analysis.", how does the paper suggest interpreting the Price to Book (P/B) ratio in fundamental analysis?

- ☐ The P/B ratio is only relevant for companies in the financial sector
- ☐ A higher P/B ratio always indicates a better investment opportunity
- ☒ A lower P/B ratio could indicate undervaluation but may also signal fundamental problems with the company requiring further investigation
- ☐ P/B ratios should be ignored in favor of earnings-based metrics for all industries
- ☒ This is correct!

Question 5

If a stock's current price is 50 and its price 20 days ago was 45 what is its

20-day momentum?

- ☐ 11.11%
- ☐ \$47.50
- ☒ \$5
- ☐ \$2.50

✓ This is correct!

Question 6

Calculate the equity on a personal balance sheet with assets of €500,000 and liabilities of €350,000.

- ☒ € 150,000
- ☐ € 500,000
- ☐ € 350,000
- ☐ € 850,000

✓ This is correct!

Question 7

What is a key difference between REITs and REOCs according to the text?

- ☐ REOCs primarily own commercial real estate while REITs focus on residential
- ☒ REITs do not pay corporate tax but REOCs do
- ☐ REITs allow small investors to buy in while REOCs do not
- ☐ REITs are publicly listed while REOCs are not

✓ This is correct!

Question 8

Which of the following is typically considered an asset on a bank's balance sheet?

- ☐ Borrowings
- ☐ Bank Capital
- ☐ Deposits
- ☒ Loans

✓ This is correct!

Question 9

According to "6 Things to Know About How Development Works.", how does the concept of land value being affected by development potential challenge the simplistic view of dense development's affordability?

- ☒ Upzoning for higher density can increase land prices, potentially offsetting some of the per-unit cost savings
- ☐ Dense development always results in lower land costs per housing unit
- ☐ Land costs remain constant regardless of development potential
- ☐ Dense development invariably leads to higher land costs per housing unit

✓ This is correct!

Question 10

What does a bullish breakout in technical analysis typically indicate?

- ☐ No significant change in price
- ☒ A buy signal as the price exceeds the resistance level
- ☐ A sell signal as the price falls below the support level
- ☐ A decrease in trading volume

✓ This is correct!

Question 11

What does the positive correlation between mortgage loans and urbanization suggest in Middle East and North Africa?

- ☒ Increasing urban population has relied on mortgages to finance housing
- ☐ Urban areas have more banks offering mortgages
- ☐ Urbanization leads to higher GDP
- ☐ Mortgage loans cause urbanization

✓ This is correct!

Question 12

According "Mortgage-Default Research and the Recent Foreclosure Crisis.", which of the following best describes the relationship between the double-trigger model and the frictionless option model (FOM) in explaining mortgage defaults?

- ☐ Both of them use option concept to build their models.
- ☐ The FOM is a special case of the double-trigger model
- ☒ Recent research has attempted to blend these models into a unified framework
- ☐ The double-trigger model is a special case of the FOM

✓ This is correct!

Question 13

Why might a real estate developer choose cooperative development as a financing option?

- ☒ To reduce construction costs
- ☐ To increase their debt-to-equity ratio
- ☐ To avoid sharing profits with partners
- ☐ To increase their company's stock price

✓ This is correct!

Question 14

Which form of market efficiency suggests that no form of analysis can aid investors?

- ☐ Moderate Efficiency
- ☒ Strong Efficiency
- ☐ Semi-strong Efficiency
- ☐ Weak Efficiency

✓ This is correct!

Question 15

Which of the following is NOT mentioned as a potential housing finance solution in Africa?

- ☒ Housing microfinance
- ☐ Housing bonds
- ☐ Contractual savings for housing
- ☐ Peer-to-peer lending platforms

✗ This is one possible solution

Question 16

What does the term "equity" refer to in the context of a company's balance sheet?

- ☒ The capital invested in a company in the form of stock
- ☐ The company's liabilities

- ☐ The company's cash reserves
- ☐ The total assets of the company
- ✓ This is correct!

Question 17

In the context of housing finance, what does "intangible asset" refer to?

- ☐ Non-physical benefits like stability or flexibility
- ☒ The monetary value of a mortgage
- ☐ The land on which a house is built
- ☐ The physical structure of a house
- ✗ No, this is not intangible asset

Question 18

According to "Sentiment Analysis of Financial News: Mechanics and Statistics.", which of the following best describes the process of lexicon-based unsupervised sentiment classification?

- ☐ Manually assigning sentiment scores to each word in a document
- ☒ Counting occurrences of predefined sentiment words in a document to assign a sentiment score
- ☐ Training a machine learning model on pre-labeled data to classify new documents
- ☐ Using natural language processing to extract sentiment from document structure
- ✓ This is correct!

Question 19

According to "Housing Market Dynamics in Africa", which of the following best describes the relationship between housing microfinance and the informal employment in Africa?

- ☒ Housing microfinance has potential to serve the informal sector but is still relatively new compared to other regions
- ☐ The informal sector in Africa has no need for housing microfinance products
- ☐ Housing microfinance is not suitable for the informal sector in Africa due to high default rates
- ☐ Housing microfinance is already well-established and serving most of the informal sector in Africa
- ✓ This is correct!

Question 20

How does the length of a bond's tenor typically affect its interest rate?

- ☐ Short-term bonds always have higher interest rates
- ☐ The length of the tenor has no effect on interest rates
- ☐ Interest rates are solely determined by the bond issuer's credit rating
- ☒ Longer-term bonds generally have higher interest rates
- ✓ This is correct!

