

Chapter 1

1. Active trading in markets and competition among securities analysts helps ensure that:
 - I. Security prices approach informational efficiency.
 - II. Riskier securities are priced to offer higher potential returns.
 - III. Investors are unlikely to be able to consistently find under- or overvalued securities.
 - A. I only
 - B. II only
 - C. III only
 - D. I, II, and III
2. The material wealth of society is determined by the economy's _____, which is a function of the economy's _____.
 - A. investment bankers; financial assets
 - B. investment bankers; real assets
 - C. productive capacity; financial assets
 - D. productive capacity; real assets
3. Which of the following is *not* a money market security?
 - A. U.S. Treasury bill
 - B. 6-month maturity certificate of deposit
 - C. common stock
 - D. All of the options
4. _____ assets generate net income to the economy, and _____ assets define allocation of income among investors.
 - A. Financial, financial
 - B. Financial, real
 - C. Real, financial
 - D. Real, real
5. _____ are examples of financial intermediaries.
 - A. Commercial banks
 - B. Insurance companies
 - C. Investment companies
 - D. All of the options

6. *Asset allocation* refers to _____.
- A. the allocation of the investment portfolio across broad asset classes
 - B. the analysis of the value of securities
 - C. the choice of specific assets within each asset class
 - D. none of the options
7. Which of the following is an example of an agency problem?
- A. Managers engage in empire building.
 - B. Managers protect their jobs by avoiding risky projects.
 - C. Managers overconsume luxuries such as corporate jets.
 - D. All of the options are examples of agency problems.
8. _____ is a mechanism for mitigating potential agency problems.
- A. Tying income of managers to success of the firm
 - B. Directors defending top management
 - C. Antitakeover strategies taken over by other firms
 - D. All of the options.
9. _____ portfolio construction starts with selecting attractively priced securities.
- A. Bottom-up
 - B. Top-down
 - C. Upside-down
 - D. Side-to-side
10. _____ represents an ownership share in a corporation.
- A. A call option
 - B. Common stock
 - C. A fixed-income security
 - D. Preferred stock
11. The value of a derivative security _____.
- A. depends on the value of another related security
 - B. affects the value of a related security
 - C. is unrelated to the value of a related security
 - D. can be integrated only by calculus professors

12. Commodity and derivative markets allow firms to adjust their _____.
A. management styles
B. focus from their main line of business to their investment portfolios
C. ways of doing business so that they'll always have positive returns
D. exposure to various business risks
13. _____ portfolio management calls for holding diversified portfolios without spending effort or resources attempting to improve investment performance through security analysis.
A. Active
B. Momentum
C. Passive
D. Market-timing
14. Financial intermediaries exist because small investors cannot efficiently _____.
A. diversify their portfolios
B. gather information
C. assess and monitor the credit risk of borrowers
D. all of the options
15. Firms that specialize in helping companies raise capital by selling securities to the public are called _____.
A. pension funds
B. investment banks
C. savings banks
D. REITs
16. In securities markets, there should be a risk-return trade-off with higher-risk assets having _____ expected returns than lower-risk assets.
A. higher
B. lower
C. the same
D. The answer cannot be determined from the information given.

17. When the market is more optimistic about a firm, its share price will _____; as a result, it will need to issue _____ shares to raise funds that are needed.

A. rise; fewer

B. fall; fewer

C. rise; more

D. fall; more

18. Debt securities promise:

I. A fixed stream of income.

II. A stream of income that is determined according to a specific formula.

III. A share in the profits of the issuing entity.

A. I only

B. I or II only

C. I and III only

D. II or III only

19. The Sarbanes-Oxley Act tightened corporate governance rules by requiring all but which one of the following?

A. Required that corporations have more independent directors.

B. Required that the CFO personally vouch for the corporation's financial statements.

C. Required that firms could no longer employ investment bankers to sell securities to the public.

D. Required the creation of a new board to oversee the auditing of public companies.

20. After much investigation, an investor finds that Intel stock is currently underpriced. This is an example of _____.

A. asset allocation

B. security analysis

C. top-down portfolio management

D. passive management

21. The efficient market hypothesis suggests that _____.

A. active portfolio management strategies are the most appropriate investment strategies

B. passive portfolio management strategies are the most appropriate investment strategies

C. either active or passive strategies may be appropriate, depending on the expected direction of the market

D. a bottom-up approach is the most appropriate investment strategy

22. Market signals will help to allocate capital efficiently only if investors are acting _____.
 A. on the basis of their individual hunches
 B. as directed by financial experts
 C. as dominant forces in the economy
 D. on accurate information
23. When a pass-through mortgage security is issued, what does the issuing agency expect to receive?
 A. the amount of the original loan plus a servicing fee
 B. the principal and interest that are paid by the homeowner
 C. the principal and interest that are paid by the homeowner, minus a servicing fee
 D. the interest paid by the homeowner, plus a servicing fee
24. Financial institutions that specialize in assisting corporations in primary market transactions are called _____.
 A. mutual funds
 B. investment bankers
 C. pension funds
 D. globalization specialists
25. Venture capital is _____.
 A. frequently used to expand the businesses of well-established companies
 B. supplied by venture capital funds and individuals to start-up companies
 C. illegal under current U.S. laws
 D. most frequently issued with the help of investment bankers

1	2	3	4	5
D	D	C	C	D
6	7	8	9	10
A	D	A	A	B
11	12	13	14	15
A	D	C	D	B
16	17	18	19	20
A	A	B	C	B
21	22	23	24	25
B	D	C	B	B

