Chapter 1

1. Active trading in markets and competition among securities analysts helps ensure that:
2. Security prices approach informational efficiency.
3. Riskier securities are priced to offer higher potential returns.
4. Investors are unlikely to be able to consistently find under- or overvalued securities.
5. I only
6. II only
7. III only
8. I, II, and III
9. 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 |

1. Which of the following is *not* a money market security?
2. U.S. Treasury bill
3. 6-month maturity certificate of deposit
4. common stock
5. All of the options
6. \_\_\_\_\_\_\_\_\_\_ assets generate net income to the economy, and \_\_\_\_\_\_\_\_\_\_ assets define allocation of income among investors.
7. Financial, financial
8. Financial, real
9. Real, financial
10. Real, real
11. \_\_\_\_\_\_\_\_\_\_ are examples of financial intermediaries.

|  |  |
| --- | --- |
| A. | Commercial banks |
| B. | Insurance companies |

C. Investment companies

D. All of the options

1. *Asset allocation* refers to \_\_\_\_\_\_\_\_\_.

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| --- | --- |
| 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 |

1. 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. |

1. \_\_\_\_\_ is a mechanism for mitigating potential agency problems.

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| --- | --- |
| A. | Tying income of managers to success of the firm |
| B. | Directors defending top management |
| C. | Antitakeover strategies |
| D. | All of the options. |

1. \_\_\_\_\_\_\_\_\_\_ portfolio construction starts with selecting attractively priced securities.

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| A. | Bottom-up |
| B. | Top-down |
| C. | Upside-down |
| D. | Side-to-side |

1. \_\_\_\_\_\_\_\_\_\_ represents an ownership share in a corporation.

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| --- | --- |
| A. | A call option |
| B. | Common stock |
| C. | A fixed-income security |
| D. | Preferred stock |

1. The value of a derivative security \_\_\_\_\_\_\_\_\_.

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| --- | --- |
| 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 |

1. Commodity and derivative markets allow firms to adjust their \_\_\_\_\_\_\_\_\_.

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| --- | --- |
| 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 |

1. \_\_\_\_\_\_\_\_\_\_ portfolio management calls for holding diversified portfolios without spending effort or resources attempting to improve investment performance through security analysis.

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| --- | --- |
| A. | Active |
| B. | Momentum |
| C. | Passive |
| D. | Market-timing |

1. Financial intermediaries exist because small investors cannot efficiently \_\_\_\_\_\_\_\_\_.

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| --- | --- |
| A. | diversify their portfolios |
| B. | gather information |
| C. | assess and monitor the credit risk of borrowers |
| D. | all of the options |

1. 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 |

1. In securities markets, there should be a risk-return trade-off with higher-risk assets having \_\_\_\_\_\_\_\_\_ expected returns than lower-risk assets.

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| --- | --- |
| A. | higher |
| B. | lower |
| C. | the same |
| D. | The answer cannot be determined from the information given. |

1. 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.

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| --- | --- |
| A. | rise; fewer |
| B. | fall; fewer |
| C. | rise; more |
| D. | fall; more |

1. Debt securities promise:

I. A fixed stream of income.

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

1. 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 |

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

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| --- | --- |
| 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. |

1. 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 |

1. The efficient market hypothesis suggests that \_\_\_\_\_\_\_.

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| --- | --- |
| 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 |

1. Market signals will help to allocate capital efficiently only if investors are acting \_\_\_\_\_ .

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| --- | --- |
| 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 |

1. 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 |

1. Financial institutions that specialize in assisting corporations in primary market transactions are called \_\_\_\_\_\_\_.

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| --- | --- |
| A. | mutual funds |
| B. | investment bankers |
| C. | pension funds |
| D. | globalization specialists |

1. Venture capital is \_\_\_\_\_\_\_\_\_.

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| --- | --- |
| 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 |