Module 4 Honors Quiz
Graded Quiz • 30 min

Due Nov 2, 1:59 AM EST

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Finance 268

Module 4 Honors Quiz

LATEST SUBMISSION GRADE

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1. Why must we consider psychological factors when speaking about housing prices? **1 / 1 point**

- ◯ Applying certain psychological factors can increase a portfolio's risk.
- ◯ Psychologists have developed mathematical formulas to accurately forecast housing prices.
- ◉ Without psychological factors, a larger percentage of real estate prices would be determined by construction costs.
- ◯ People behave in very predictable ways, so it is possible to make a lot of money by investing in real estate.

✓ **Correct**

2. Select TWO important actions of the Federal Housing Administration. **1 / 1 point**

- ☑ Require loans to be at least 15 years.

✓ **Correct**

- [ ] Impose a sharp tax on real estate.
- [x] Insure lenders against losses

✓ **Correct**

- [ ] Guarantee employment for home-owners.

3. Which of the following definitions are correct? (check all that apply) **1 / 1 point**

- [x] Fixed rate mortgages are mortgages where the interest rate does not change over time.

✓ **Correct**

- [ ] An adjustable rate mortgage (ARM) does not have a fixed interest rate, but increases gradually over time.
- [x] Shared Appreciation Mortgages (SAMs) require you to pay some percentage of the appreciation of your house.

✓ **Correct**

- [x] Price Level Adjusted Mortgage (PLAMs) are adjusted to inflation.

✓ **Correct**

4. Which of the following started happening to CDOs in 2007? **1 / 1 point**

- ○ CDOs had to be bailed out by the government
- ◉ Defaults started to affect the highest tranche
- ○ CDOs replaced CMOs for mortgages.
- ○ AAA tranches were re-rated to be of similar risk to the lowest tranche.

✓ **Correct**

5. Why are banks incentivized to offer Qualifying Residential Mortgages (QRMs)? **1 / 1 point**

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- (•) Banks are usually in the business of initiating but not keeping mortgages, so offering QRMs allows them to sell them all to a CMO.
- ( ) QRMs are mortgages that are unlikely to default, so by offering them, banks can ensure that they will not lose large amounts of money from defaults.
- ( ) Banks are usually in the business of initiating but not keeping mortgages, but QRMs are high enough quality that banks would want to keep them.
- ( ) The government forces banks to offer them if they want to offer any kind of mortgage.

> ✓ **Correct**
> Banks are required to keep at least 5% of their non-QRMs.

6. Which of the following is NOT in practice a problem with regulation? **1 / 1 point**

- (•) Regulation can cause a monopoly if only one company can keep up with the expenses of complying with the regulations.
- ( ) Companies may be disincentivized to grow beyond a certain size to avoid extra regulations.
- ( ) It may be possible to bribe corrupt regulators.
- ( ) A lot of money is lost on paperwork for complying with regulations.

> ✓ **Correct**
> This generally goes

7. Which of the following correctly describes a type of hedge fund? (check all that apply) **1 / 1 point**

- [x] 3c1 hedge funds can take no more than 99 investors, each of whom must have an income of at least $200,000 or investable assets of at least $1,000,000.

> ✓ **Correct**

- [ ] 3c3 hedge funds can take up to 999 investors, each of whom must be an individual with a net worth of at least $10,000,000 or an organization with a net worth of at least $100,000,000.
- [x] 3c7 hedge funds can take up to 500 investors, each of whom must be an individual with a net worth of at least $5,000,000 or an organization with a net worth of at least $25,000,000.

> ✓ **Correct**

- [ ] 3c8 hedge funds can take no more than 50 investors, each of whom must have an income of at least $200,000 or investable assets of at least $5,000,000.

8. Which is NOT true about Generally Accepted Accounting Principles (GAAP)?

1 / 1 point

- ( ) They are defined by the Financial Accounting Standards Board (FASB)
- ( ) It maintains official definitions of “net income” and “operating income”,
- ( ) They are used for EDGAR.
- (•) It invented the concept of Earnings Before Interest, Taxes, Depreciation, and Amortization (EBIT)

✓ **Correct**

This is an important definition, but it is not part of GAAP

9. What is rating shopping?

1 / 1 point

- ( ) Banks tell rating services the rating they wanted before it was rated.
- ( ) Banks only ask low-integrity rating services to rate mortgages.
- (•) Banks ask several mortgage rating services what their rating will be on a mortgage, and then pick the best rating.
- ( ) Banks stop caring about the rating anymore as long as they can find someone to buy it.

✓ **Correct**