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Finance

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Lesson #11 Quiz

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1. Why might companies like the idea of regulation?

1 / 1 point

- ☒ It allows them to compete on a level at which they do not have to use (potentially unethical or unfair) special tricks to avoid letting their competitors gain a competitive advantage.
- ☐ It helps them ensure they are representing the interests of their customers.
- ☐ Companies have enough money to bribe government officials to create regulation that favors them.
- ☐ Regulation could be used to give them a legal monopoly over a particular sector.



Correct

For instance, baseball players do not like it when an umpire calls them out on foul play, but they like the fact that umpires exist because they also ensure their opponents won't break the rules.

2. What is tunneling?

1 / 1 point

- ☐ When a small group of majority shareholders in a company allow the company to be bought out for a very low price by another company in which the small group are also majority shareholders.
- ☐ When management of a company transfers cash from a corporate account to a personal account.

- ☒ Any trick that somebody in the company uses to steal money from the company.
- ☐ When a member of the board of directors fires a high ranking employee so that a family member can take their place.



Correct

This is the definition of tunneling.

3. Ideally, who must the board of directors be loyal to?

1 / 1 point

- ☐ The government
- ☒ The shareholders
- ☐ The general public
- ☐ The CEO



Correct

4. What is a fixed commission?

1 / 1 point

- ☐ Fixed taxes imposed on brokerages if they wished to operate in the stock market.
- ☐ The opposite of dividends, i.e. fixed per-share prices charged by companies to shareholders.
- ☐ The rate charged in order to join a trade groups.
- ☒ A fixed rate charged by all brokerages to buy or sell shares on the stock market.



Correct

Fixed commissions were only outlawed in the US in 1975 and in the UK in 1986.

5. Which of the following describes the contrast of federal vs state regulation in the US?

1 / 1 point

- ☐ Securities regulation and corporate regulation are both primarily controlled by the federal government.
- ☐ Securities regulation and corporate regulation are both primarily controlled by the state governments.
- ☒ Securities are primarily regulated by federal government but corporate regulation is primarily by the state governments.
- ☐ Securities are primarily regulated by state governments but corporate regulation is primarily by the federal government.

✓ Correct

6. What is the US Securities and Exchange Commission (SEC) NOT responsible for doing?

1 / 1 point

- ☐ To force organizations to maintain financial transparency.
- ☐ To authorize companies to be traded publicly on the stock market.
- ☒ To provide reliable and timely information on the performance of securities.
- ☐ To manage the EDGAR database.

✓ Correct

The SEC does not perform this function.

7. Which of the following is NOT an example of insider trading?

1 / 1 point

- ☐ Martha receives private information about a company from her stock broker. As a result, she sells all of her shares in this company, which fall substantially in price the next day.
- ☒ Chenxiang, the CEO of a company, directs the purchase and company-wide deployment of software written by his brother.
- ☐ Leah is a short seller who sells shares for a company she used to work for and then creates a fake press release with bad news from the company.
- ☐ Mohammed is a secretary for a large corporation and overhears that they are about to take over a smaller corporation. He tells his wife, who purchases a large number of shares in the company immediately before the acquisition is announced.

✓ Correct

This is an example of tunneling, not insider trading.

8. What happened when Goodbody and Company failed?

1 / 1 point

- ☐ People began to distrust brokerages and pulled their money out of stocks.
- ☐ Because Goodbody and Company held the shares for their clients, people lost most or all of their stocks.
- ☐ Goodbody and Company had to mail everybody their stocks before they failed.
- ☒ None of the retail investors lost any money.



Correct

They were taken over by Merrill Lynch, who was reimbursed for \$30 million in losses from the New York Stock Exchange.

9. Which of the following describes the Bank for International Settlements (BIS)?

1 / 1 point

- ☐ A bank for citizens of any country which allows them to deal in other currencies.
- ☐ A former financial institution which was replaced by the G20.
- ☐ The English name for the national bank of Switzerland, which strategically fosters relationships between banks internationally.
- ☒ A bank for central banks which provides an intermediary for the central banks to deal with each other.



Correct