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Finance

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Lesson #14 Quiz

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1. Which of the following two options are deals that underwriters make with corporations?

1 / 1 point

☒ Best efforts: the underwriters tries to sell shares at some price, and the deal collapses if they don't.

Correct

☐ Short cut: the underwriters will cut the price of the shares if some of them remain unsold.

☐ Loss safe: the underwriter will pay a penalty to the company if not all of the shares sell.

☒ Bought deal: the underwriter will purchase all unsold shares.

Correct

2. Why do underwriters usually underprice IPOs?

1 / 1 point

☐ They don't know how much the company is really worth

- ☒ They want to create public excitement
- ☐ They do not want the company to make as much money as it could.
- ☐ They want their favorite customers to be able to buy shares for cheaper



Correct

The underwriter is incentivized to create positive public sentiments about their shares, and the company will in turn benefit from this publicity.

3. Which of the following was NOT a feature that Charles Ellis believed made Goldman Sachs successful?

1 / 1 point

- ☒ Becoming prestigious
- ☐ Personal anonymity
- ☐ Absolute loyalty to the firm
- ☐ Making money



Correct

He argued that the main advantage of prestige for them was the ability to make money.

4. What is a rating agency?

1 / 1 point

- ☒ An agency which publishes its ratings on the reliability of securities.
- ☐ An agency which rates the business practices of corporations.
- ☐ Any agency which refuses to take money from corporations for rating their securities.
- ☐ An agency which assigns credit scores to individuals.



Correct

Rating agencies rate bonds, preferred stock, and other securities.

5. Why was the Glass-Steagall Act of 1933 repealed in 1999?

1 / 1 point

- ☐ Investment banking was too costly for some companies, which could not manage both investment and commercial banking services.
- ☒ American banks claimed that it made it hard to compete with European banks, which offered both investment and commercial banking services.
- ☐ Investors felt inconvenienced that a single bank could not function as both an investment and a commercial bank

- ☐ It was ruled unconstitutional by the supreme court.



Correct

European banks have always been able to offer all of these services.

6. What were the two biggest assets of the average (not median) US household in 2015?

1 / 1 point

- ☒ Real estate and pension funds
- ☐ Real estate and mutual funds
- ☐ Real estate and corporate equities
- ☐ Mutual funds and corporate equities



Correct

These accounted for \$25,278 billion and \$20,972 billion respectively in 2015.

7. Which best describes the "prudent person" rule?

1 / 1 point

- ☒ A law which mandates that investment managers must do what another educated, experienced investment manager might do in a similar circumstance.
- ☐ A law which limits the amount of risk with which funds managers may invest money
- ☐ A new rule for fund managers which is starting to apply to newer regulations.
- ☐ A guideline that individuals should look for funds managers who show prudence.



Correct

The law states that they must act "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."

8. Which of the following is NOT true of mutual funds?

1 / 1 point

- ☐ You join the fund at 4:00 PM on the day you decide to invest.
- ☐ Massachusetts Investment Trust was an early model for mutual funds in the US.
- ☐ They are defined and regulated by the SEC.
- ☒ Mutual funds are closed end funds.



Correct

Mutual funds are open end funds.