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Finance

268



Module 6 Honors Quiz

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1. The _____ price is the amount a dealer wants you to pay for a security whereas the _____ price is the amount a dealer is willing to pay you for the security.

1 / 1 point

- ☐ Selling; Bid
- ☐ Bid; Ask
- ☒ Ask; Bid
- ☐ Ask; Receiving

Correct

2. There are numerous factors that are taken into account in deciding on which stock exchange to list on. One factor is the so-called "familiarity bias" which in this context posits that:

1 / 1 point

- ☐ Investors may have a preference for investing in only a specific (and familiar) class of securities, such as stocks only.
- ☐ Investors may often chase past performance in the mistaken belief that historical returns predict future investment performance.

- ☐ There are actually no behavioral biases that are taken into account when deciding on which stock exchange to list on.
- ☒ Investors may have a preference for familiar (geographically close/domestic) investments despite the seemingly obvious gains from diversification.

 **Correct**

3. Suppose that you own 100 shares that are currently worth \$50. Assume you want to hold onto your shares, but are worried that the price of your shares might collapse. You definitely want to sell the shares if their price falls to \$25. What kind of order should you place?

1 / 1 point

- ☐ A sell market order for 100 shares.
- ☒ A stop loss order for 100 shares at \$25.
- ☐ A sell limit order for 100 shares at \$25.
- ☐ A sell limit order for 100 shares at \$50.

 **Correct**

A stop-loss order is an order placed with a broker to sell a security when it reaches a certain price. This certain price is \$25.

4. In the context of sovereign debt default, a collective action clause (CAC) allows: (check all that apply)

1 / 1 point

- ☐ A full recovery for all the creditors.
- ☒ To solve the holdout problem amongst the creditors of the debt.

 **Correct**

- ☐ A priority treatment in the future bankruptcy proceeding.
- ☒ A supermajority of bondholders to agree to a debt restructuring that is legally binding on all holders of the bond, including those who vote against the restructuring.

 **Correct**

5. Who in the U.S. is affected by the so-called balanced budget rule?

1 / 1 point

- ☐ The federal government must have a balanced budget at all times.

- ☐ After applying for Chapter 9 bankruptcy, a municipality has to have a balanced budget for 10 years, before it can start issuing tax-exempt municipal bonds again.
- ☐ Any corporation must satisfy the balanced budget rule, which means that a corporation's assets must be equal to its short-term liabilities.
- ☒ A state's operating budget typically has to be balanced. This does however not mean that states cannot go into debt, as states also have a capital budget, to which the balanced budget rule does not apply.

 **Correct**

6. Which type of insurance coverage would likely cause more moral hazard problems:

1 / 1 point

- ☐ a payment of \$10,000 for each eye lost
- ☐ a payment of \$10 if your car get stolen or
- ☒ a payment of \$100 for each day spent in a nursing home
- ☐ All create the same moral hazard problems.

 **Correct**

You might go to a nursing home if an insurance was paying much of the cost, or stay longer because of it.