

Student name: \_\_\_\_\_

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.**

- 1) The material wealth of a society is a function of
- A) all financial assets.  
B) all real assets.  
C) all financial and real assets.  
D) all physical assets.
- 2) \_\_\_\_\_ are real assets.
- A) Land  
B) Machines  
C) Stocks and bonds  
D) Knowledge  
E) Land, machines, and knowledge
- 3) The means by which individuals hold their claims on real assets in a well-developed economy are
- A) investment assets.  
B) depository assets.  
C) derivative assets.  
D) financial assets.  
E) exchange-driven assets.
- 4) \_\_\_\_\_ are financial assets.
- A) Bonds  
B) Machines  
C) Stocks  
D) Bonds and stocks  
E) Bonds, machines, and stocks
- 5) \_\_\_\_\_ financial asset(s).

- A) Buildings are
- B) Land is a
- C) Derivatives are

- D) U.S. agency bonds are
- E) Derivatives and U.S. agency bonds are

6) Financial assets

- A) directly contribute to the country's productive capacity.
- B) indirectly contribute to the country's productive capacity.
- C) contribute to the country's productive capacity, both directly and indirectly.

- D) do not contribute to the country's productive capacity, either directly or indirectly.
- E) are of no value to anyone.

7) In 2018, \_\_\_\_\_ was the most significant real asset of U.S. households in terms of total value.

- A) consumer durables
- B) automobiles
- C) real estate

- D) mutual fund shares
- E) bank loans

8) In 2018, \_\_\_\_\_ was the least significant financial asset of U.S. households in terms of total value.

- A) real estate
- B) mutual fund shares
- C) debt securities

- D) life insurance reserves
- E) pension reserves

9) In 2018, \_\_\_\_\_ was the most significant financial asset of U.S. households in terms of total value.

- A) real estate
- B) mutual fund shares
- C) debt securities

- D) life insurance reserves
- E) pension reserves

**10)** In 2018, \_\_\_\_\_ was the most significant asset of U.S. households in terms of total value.

- A) real estate
- B) mutual fund shares
- C) debt securities

- D) life insurance reserves
- E) pension reserves

**11)** In 2018, \_\_\_\_\_ were the most significant liability of U.S. households in terms of total value.

- A) credit cards
- B) mortgages
- C) bank loans

- D) student loans
- E) other forms of debt

**12)** In 2018, which of the following financial assets make up the second highest proportion of the financial assets held by U.S. households?

- A) Corporate equity
- B) Life insurance reserves
- C) Mutual fund shares

- D) Debt securities
- E) Personal trusts

**13)** In 2018, \_\_\_\_\_ of the assets of U.S. households were financial assets as opposed to tangible assets.

- A) 23.5%

- B) 87.2%
- C) 28.4%

- D) 58.4%
- E) 71.6%

14) The largest component of domestic net worth in 2018 was

- A) nonresidential real estate.
- B) residential real estate.
- C) inventories.

- D) consumer durables.
- E) equipment and software.

15) The smallest component of domestic net worth in 2018 was

- A) nonresidential real estate.
- B) residential real estate.
- C) inventories.

- D) consumer durables.
- E) equipment and software.

16) The domestic net worth of the U.S. in 2018 was

- A) \$9.350 trillion.
- B) \$22.642 trillion.
- C) \$32.539 trillion.

- D) \$72.683 trillion.
- E) \$80.983 trillion.

17) A fixed-income security pays

- A) a fixed level of income for the life of the owner.
- B) a fixed stream of income or a stream of income that is determined according to a specified formula for the life of the security.
- C) a variable

level of income for owners on a fixed income.

D) a fixed or variable income stream at the option of the owner.

18) A debt security pays

- A) a fixed level of income for the life of the owner.
- B) a variable level of income for owners on a fixed income.
- C) a fixed or variable income stream at the option of the owner.
- D) a fixed stream of income or a stream of income that is determined according to a specified formula for the life of the security.

19) Money market securities

- A) are short term.
- B) are highly marketable.
- C) are generally very low risk.
- D) are highly marketable and are generally very low risk.
- E) All of the options.

20) An example of a derivative security is

- A) a common share of Microsoft.
- B) a call option on Intel stock.
- C) a commodity futures contract.
- D) a call option on Intel stock and a commodity futures contract.
- E) a common share of Microsoft and a call option on Intel stock.

21) The value of a derivative security

- A) depends on the value of the related security.
- B) is unable to be calculated.
- C) is unrelated to the value of the related security.
- D) has been enhanced due to the recent misuse and negative publicity regarding these instruments.
- E) is worthless today.

22) Although derivatives can be used as speculative instruments, businesses

- A) attract customers.
- B) appease stockholders.
- C) offset debt.
- D) hedge risks.
- E) enhance their balance sheets.

23) Financial assets permit all of the following except

A) consumption timing.

B) allocation of risk.

C) separation of ownership and control.

D) elimination of risk.

24) The \_\_\_\_\_ refers to the potential conflict between management and shareholders.

A) agency problem

B) diversification problem

C) liquidity problem

D) solvency problem

E) regulatory problem

25) A disadvantage of using stock options to compensate managers is that

A) it encourages managers to undertake projects that will increase stock price.

B) it encourages managers to engage in empire building.

C) it can create an incentive for managers to manipulate information to prop up a stock price temporarily,

giving them a chance to cash out before the price returns to a level reflective of the firm's true prospects.

D) All of the above.

26) Which of the following are mechanisms that have evolved to mitigate potential agency problems? I) Using the firm's stock options for compensation II) Hiring bickering family members as corporate spies III) Boards of directors forcing out underperforming management IV) Security

analysts monitoring the firm closely V) Takeover threats

A) II and V

B) I, III, and IV

C) I, III, IV, and V

D) III, IV, and V

E) I, III, and V



**27)** Corporate shareholders are best protected from incompetent management decisions by

- A) the ability to engage in proxy fights.
- B) management's control of pecuniary rewards.
- C) the ability to call shareholder meetings.

- D) the threat of takeover by other firms.
- E) one-share/one-vote election rules.

**28)** Theoretically, takeovers should result in

- A) improved management.
- B) increased stock price.
- C) increased benefits to existing management of the taken-over firm.

- D) improved management and increased stock price.
- E) All of the options.

**29)** During the period between 2000 and 2002, a large number of scandals were uncovered. Most of these scandals were related to

I) manipulation of financial data to misrepresent the actual condition of the firm.

II) misleading and overly optimistic research reports produced by analysts.

III) allocating IPOs to executives as a quid pro quo for personal favors.

IV) greenmail.

- A) II, III, and IV
- B) I, II, and IV

- C) II and IV
- D) I, III, and IV
- E) I, II, and III

**30)** The Sarbanes-Oxley Act

- A) requires corporations to have more independent directors.
- B) requires the firm's CFO to personally vouch for the firm's accounting statements.
- C) prohibits auditing firms from providing other services to clients.
- D) requires corporations to have more independent

directors and requires the firm's CFO to personally vouch for the firm's accounting statements.  
E) All of the above.

**31)** Asset allocation refers to

- A) choosing which securities to hold based on their valuation.
- B) investing only in "safe" securities.
- C) the allocation of assets into broad asset classes.

D) bottom-up analysis.

**32)** Security selection refers to

- A) choosing which securities to hold based on their valuation.
- B) investing only in "safe" securities.
- C) the allocation of assets into broad asset classes.

D) top-down analysis.

**33)** Which of the following portfolio construction methods starts with security analysis?

- A) Top-down
- B) Bottom-up
- C) Middle-out

D) Buy and hold  
E) Asset allocation

**34)** Which of the following portfolio construction methods starts with asset allocation?

A) Top-down

- B) Bottom-up
- C) Middle-out

- D) Buy and hold
- E) Asset allocation

35) \_\_\_\_\_ are examples of financial intermediaries.

- A) Commercial banks
- B) Insurance companies
- C) Investment companies

- D) Credit unions
- E) All of the options

36) Financial intermediaries exist because small investors cannot efficiently

- A) diversify their portfolios.
- B) assess credit risk of borrowers.
- C) advertise for needed investments.
- D) diversify their portfolios and assess credit risk of

- borrowers.
- E) All of the options.

37) \_\_\_\_\_ specialize in helping companies raise capital by selling securities.

- A) Commercial bankers
- B) Investment bankers

- C) Investment issuers
- D) Credit raters

38) Commercial banks differ from other businesses in that both their assets and their liabilities are mostly

- A) illiquid.
- B) financial.
- C) real.

- D) owned by the government.
- E) regulated.

**39)** In 2018, \_\_\_\_\_ was(were) the most significant financial asset(s) of U.S. commercial banks in terms of total value.

- A) loans and leases
- B) cash
- C) real estate

- D) deposits
- E) investment securities

**40)** In 2018, \_\_\_\_\_ was(were) the most significant liability(ies) of U.S. commercial banks in terms of total value.

- A) loans and leases
- B) cash
- C) real estate

- D) deposits
- E) investment securities

**41)** In 2018, \_\_\_\_\_ was(were) the most significant real asset(s) of U.S. nonfinancial businesses in terms of total value.

- A) equipment and software
- B) inventory
- C) real estate

- D) trade credit
- E) marketable securities

**42)** In 2018, \_\_\_\_\_ was(were) the least significant real asset(s) of U.S. nonfinancial businesses in terms of total value.

- A) equipment and software
- B) inventory
- C) real estate

- D) trade credit
- E) marketable securities

**43)** In 2018,

\_\_\_\_\_ was(were) the least significant liability(ies) of U.S. nonfinancial businesses in terms of total value.

- A) bonds and mortgages
- B) bank loans
- C) inventories
- D) trade debt
- E) marketable securities

**44)** In terms of total value, the most significant liability(ies) of U.S. nonfinancial businesses in 2018 was(were)

- A) bank loans.
- B) bonds and mortgages.
- C) trade debt.
- D) other loans.
- E) marketable securities.

**45)** In 2018, \_\_\_\_\_ was(were) the least significant financial asset(s) of U.S. nonfinancial businesses in terms of total value.

- A) cash and deposits
- B) trade credit
- C) trade debt
- D) inventory
- E) marketable securities

**46)** New issues of securities are sold in the \_\_\_\_\_ market(s).

- A) primary
- B) secondary
- C) over-the-counter
- D) primary and secondary

**47)** Investors trade previously issued securities in the \_\_\_\_\_ market(s).

- A) primary
- B) secondary

- C) primary and secondary
- D) derivatives

48) Investment bankers perform which of the following role(s)?

- A) Market new stock and bond issues for firms
- B) Provide advice to the firms as to market conditions, price, etc.
- C) Design securities with desirable properties

- D) All of the options
- E) None of the options

49) Until 1999, the \_\_\_\_\_ Act(s) prohibited banks in the United States from both accepting deposits and underwriting securities.

- A) Sarbanes-Oxley
- B) Glass-Steagall
- C) SEC

- D) Sarbanes-Oxley and SEC
- E) None of the options

50) The spread between the LIBOR and the Treasury-bill rate is called the

- A) term spread.
- B) T-bill spread.

- C) LIBOR spread.
- D) TED spread.

51) Mortgage-backed securities were created when \_\_\_\_\_ began buying mortgage loans from originators and bundling them into large pools that could be traded like any other financial asset.

- A) GNMA
- B) FNMA
- C) FHLMC

- D) FNMA and FHLMC
- E) GNMA and FNMA

**52)** The sale of a mortgage portfolio by setting up mortgage pass-through securities is an example of

- A) credit enhancement.
- B) credit swap.
- C) unbundling.
- D) derivatives.

**53)** Which of the following is true about mortgage-backed securities? I) They aggregate individual home mortgages into homogeneous pools.II) The purchaser receives monthly interest and principal payments received from payments made on the pool.III) The banks that originated the mortgages

maintain ownership of them.IV) The banks that originated the mortgages may continue to service them.

- A) II, III, and IV
- B) I, II, and IV
- C) II and IV
- D) I, III, and IV
- E) I, II, III, and IV

**54)** \_\_\_\_\_ were designed to concentrate the credit risk of a bundle of loans on one class of investor, leaving the other investors in the pool relatively protected from that risk.

- A) Stocks
- B) Bonds
- C) Derivatives
- D) Collateralized debt obligations
- E) All of the options

**55)** \_\_\_\_\_ are, in essence, an insurance contract against the default of one or more borrowers.

- A) Credit default swaps
- B) CMOs
- C) ETFs

- D) Collateralized debt obligations
- E) All of the options

**56)** The technology behind cryptocurrencies that is ideal for secure digital transactions is called \_\_\_\_\_.

- A) bitcoin
- B) blockchain
- C) distributed ledgers

- D) ethereum
- E) All of the options

**57)** A major problem experienced by cryptocurrency, which makes it problematic to store value is \_\_\_\_\_.

- A) distributed ledgers
- B) blockchain
- C) price volatility

- D) transaction security
- E) All of the options

**58)** Which country has banned initial coin offerings?

- A) China
- B) Germany
- C) Japan

- D) USA
- E) All of the options

**59)** The Economic Growth, Regulatory Relief and Consumer Protection Act of 2019 exempted smaller banks from which rule?

- A) Liquidity
- B) Reserves

- C) Demand



deposit

- D) Volker
- E) All of the options

**60)** According to the Economic Growth, Regulatory Relief and Consumer Protection Act of 2019 many larger banks are

- A) insurable
- B) high risk
- C) insolvent

no longer considered  
\_\_\_\_\_.

- D) systematically important
- E) All of the options.

## **Answer Key**

Test name: Chapter 1

- 1) B
- 2) E
- 3) D
- 4) D
- 5) E
- 6) B
- 7) C
- 8) D
- 9) E
- 10) A
- 11) B
- 12) A
- 13) E
- 14) B
- 15) C
- 16) D
- 17) B
- 18) D
- 19) E

20) D

21) A

22) D

23) D

24) A

25) C

26) C

27) D

28) D

29) E

30) E

31) C

32) A

33) B

34) A

35) E

36) E

37) B

38) B

39) A

40) D

41) C

42) B

43) B

44) B

45) A

46) A

47) B

48) D

49) B

50) D

51) D

52) B

53) B

54) D

55) A

56) B

57) C

58) A

59) D

60) D