

1. An Introduction to Investments

True / False

1. The investor should specify the objectives of investing.

- a. True
- b. False

ANSWER: True

2. The terms "investing" and "trading" refer to purchasing and selling securities.

- a. True
- b. False

ANSWER: True

3. Investments are made in anticipation of a return.

- a. True
- b. False

ANSWER: True

4. The anticipated return and the realized return often differ.

- a. True
- b. False

ANSWER: True

5. Capital gains are the sole source of the return on an investment.

- a. True
- b. False

ANSWER: False

6. Risk is the uncertainty that the realized return may differ from the expected.

- a. True
- b. False

ANSWER: True

7. Stocks are initially sold in the "primary" market and subsequently traded in the "secondary" market.

- a. True
- b. False

ANSWER: True

8. Liquidity refers to the ease of selling a stock for a capital gain.

- a. True
- b. False

ANSWER: False

9. Efficient markets suggests that investors will outperform the market consistently.

- a. True
- b. False

ANSWER: False

10. An informed investor can expect to consistently outperform the market.

- a. True
- b. False

ANSWER: False

11. Portfolio assessment should include measures of both risk and return.

- a. True
- b. False

ANSWER: True

Multiple Choice

Reasons for saving and investing include 1. need for funds to meet emergencies 2. retirement income 3. desire to leave an estate for children

12. Reasons for saving and investing include 1. need for funds to meet emergencies 2. retirement income 3....

- a. 1 and 2
- b. 1 and 3
- c. 2 and 3
- d. all of the above

ANSWER: d

13. Which of the following is an investment as defined by an economist?

- a. equipment
- b. land
- c. stock
- d. savings account

ANSWER: a

14. Which of the following is not an investment in the layperson's general use of the term?

- a. equipment
- b. land
- c. stock
- d. savings account

ANSWER: a

Many investments such as stock have common characteristics including 1. existence of secondary markets 2. risk 3. potential for capital gains

15. Many investments such as stock have common characteristics including 1. existence of secondary market...

- a. 1 and 2
- b. 1 and 3
- c. 2 and 3
- d. all of the above

ANSWER: d

16. Risk

- a. depends solely on price fluctuations
- b. should be maximized to increase returns
- c. is reduced through specialization
- d. refers to the uncertainty of returns

ANSWER: d

17. Financial investments are made in efficient markets. The existence of these markets suggests that

- a. investors cannot earn superior returns
- b. investors cannot expect to outperform the market consistently
- c. securities prices are random
- d. bearing additional risk will not increase return

ANSWER: b

18. Diversification reduces

- a. income
- b. capital gains
- c. taxes
- d. risk

ANSWER: d

19. Trading implies

- a. frequently buying securities
- b. frequently selling securities
- c. frequently buying and selling securities
- d. investing

ANSWER: c