

Chapter 2

Student: _____

1. Only small companies can go through financial markets to obtain financing.

True False
2. The reinvestment of cash back into the firm's operations is an example of a flow of savings to investment.

True False
3. Smaller businesses are especially dependent upon internally generated funds.

True False
4. An individual can save and invest in a corporation only by lending money to it or by purchasing additional shares.

True False
5. Previously issued securities are traded among investors in the secondary markets.

True False
6. Only the IPOs for large corporations are sold in primary markets.

True False
7. The markets for long-term debt and equity are called capital markets.

True False
8. The derivative market is also a source of financing for corporations.

True False
9. Apple Computer is well known for its product innovations. Access to financing was vital to Apple's growth and profitability.

True False

10. Whenever there is uncertainty, investors might be interested in trading, either to speculate or to lay off their risks, and a market may rise to meet the trading demand.
- True False
11. Financing for public corporations must flow through financial markets.
- True False
12. Financing for private corporations must flow through financial intermediaries.
- True False
13. Hedge fund managers, unlike mutual fund managers, do not receive fund-performance-related fees.
- True False
14. In the United States, banks are the most important source of long-term financing for businesses.
- True False
15. A financial intermediary invests in financial assets rather than real assets.
- True False
16. The stocks of major corporations trade in many markets throughout the world on a continuous or near-continuous basis.
- True False
17. The key to the banks' ability to make illiquid loans is their ability to pool liquid deposits from thousands of depositors.
- True False
18. For corporate bonds, the higher the credit quality of an issuer, the higher the interest rate.
- True False

19. Like public companies, private companies can also use their stock price as a measure of performance.
- True False
20. Financial markets and intermediaries allow investors and businesses to reduce and reallocate risk.
- True False
21. Almost all foreign exchange trading occurs on the floors of the FOREX exchanges in New York and London.
- True False
22. The cost of capital is the interest rate paid on a loan from a bank or some other financial institution.
- True False
23. The opportunity cost of capital is the expected rate of return that shareholders can obtain in the financial markets on investments with the same risk as the firm's capital investments.
- True False
24. The cost of capital is the minimum acceptable rate of return for capital investment.
- True False
25. The rates of return on investments outside the corporation set the minimum return for investment projects inside the corporation.
- True False
26. During the Financial Crisis of 2007-2009, the U.S. government bailed out all firms in danger of failing.
- True False
27. From June 2001 to June 2006, housing prices in the United States doubled.
- True False

28. The effects of the financial crisis of 2007-2009 were confined to the U.S. and domestic companies.
- True False
29. One root of the financial crisis of 2007-2009 was the strict money policies promoted by the U.S. Federal Reserve and other central banks after the technology bubble burst (i.e., money was relatively expensive during this time).
- True False
30. Which one of these is a money market security?
- A.
B.
C.
D.
31. Which one of these assists in shifting an individual's consumption forward in time?
- A.
B.
C.
D.
32. Which of the following is *not* typically considered a function of financial intermediaries?
- A.
B.
C.
D.
33. Commodity and derivative markets:
- A.
B.
C.
D.

34. Which one of these transports income forward in time?
- A.
 - B.
 - C.
 - D.
35. Who was responsible for the financial crisis of 2007-2009?
- A.
 - B.
 - C.
 - D.
36. Which one of the following funds not provides a tax advantage to individual investors?
- A.
 - B.
 - C.
 - D.
37. Which of the following financial assets is *least* likely to have an active secondary market?
- A.
 - B.
 - C.
 - D.
38. A company can pay for its expansion in all the following ways *except*:
- A.
 - B.
 - C.
 - D.

39. Short-term financing decisions commonly occur in the:
- A.
 - B.
 - C.
 - D.
40. Long-term financing decisions commonly occur in the:
- A.
 - B.
 - C.
 - D.
41. Which type of financial institution generally does not accept deposits but does underwrite stock offerings?
- A.
 - B.
 - C.
 - D.
42. You can buy silver in the:
- A.
 - B.
 - C.
 - D.
43. Which of the following actions does *not* help reduce risk?
- A.
 - B.
 - C.
 - D.

44. Financing for public corporations flows through:
- A.
 - B.
 - C.
 - D.
45. One reason suggesting that banks may be better than individuals at matching lenders to borrowers is that banks:
- A.
 - B.
 - C.
 - D.
46. Which of the following factors contributed to the financial crisis of 2007-2009?
- A.
 - B.
 - C.
 - D.
47. Which one of the following financial intermediaries has shown the greatest preference for investing in *long-term* financial assets?
- A.
 - B.
 - C.
 - D.
48. U.S. bonds and other debt securities are mostly held by:
- A.
 - B.
 - C.
 - D.

49. Financial markets and intermediaries:

- A.
- B.
- C.
- D.

50. A bond differs from a share of stock in that a bond:

- A.
- B.
- C.
- D.

51. Corporate debt instruments are most commonly traded:

- A.
- B.
- C.
- D.

52. Which one of these may provide a financial return to some investors while not providing any financial return to other investors?

- A.
- B.
- C.
- D.

53. Which one of these parties *cannot* invest in a hedge fund?

- A.
- B.
- C.
- D.

54. Which of the following are both a financial intermediary and a financial institution?
- A.
 - B.
 - C.
 - D.
55. Which one of these was a contributing factor to the need for many foreign banks to seek aid from their governments as a result of the financial crisis of 2007-2009?
- A.
 - B.
 - C.
 - D.
56. Which one of these enterprises generally acts as an underwriter for an initial public offering?
- A.
 - B.
 - C.
 - D.
57. The financial crisis of 2007-2009 contributed to the largest sovereign default in history by which one of these countries?
- A.
 - B.
 - C.
 - D.
58. The cost of capital:
- A.
 - B.
 - C.
 - D.

59. The cost of capital:
- A.
 - B.
 - C.
 - D.
60. During the Financial Crisis of 2007-2009, the U.S. government bailed out all of the following firms *except*:
- A.
 - B.
 - C.
 - D.
61. A mother in a developing country wants to borrow the equivalent of \$20 to enable her to start a small restaurant run by her family. Which type of financing is she looking to obtain?
- A.
 - B.
 - C.
 - D.
62. Which of the following information is *not* provided by the financial markets?
- A.
 - B.
 - C.
 - D.
63. Which one of the following is the biggest provider of payment mechanisms?
- A.
 - B.
 - C.
 - D.

64. "Reinvestment" means:
- A.
 - B.
 - C.
 - D.
65. Liquidity is important to a mutual fund primarily because:
- A.
 - B.
 - C.
 - D.
66. One contributing factor to the 2007-2009 financial crisis was the structuring of mortgage loans with:
- A.
 - B.
 - C.
 - D.
67. NINJA stands for
- A.
 - B.
 - C.
 - D.
68. Foreign currencies are traded:
- A.
 - B.
 - C.
 - D.
69. When Patricia sells her General Motors common stock at the same time that Brian purchases the same amount of GM stock, GM receives:
- A.
 - B.
 - C.
 - D.

70. The main cause of the financial crisis of 2007-2009 was caused by which financial market factor?
- A.
 - B.
 - C.
 - D.
71. The primary distinction between securities sold in the primary and secondary markets is the:
- A.
 - B.
 - C.
 - D.
72. Which one of these is generally a key difference between U.S. and foreign commercial banks?
- A.
 - B.
 - C.
 - D.
73. A financial institution:
- A.
 - B.
 - C.
 - D.
74. The 2007-2009 financial crisis was mainly caused by the following organizations.
- A.
 - B.
 - C.
 - D.

75. Which one of the following is *least* liquid?
- A.
 - B.
 - C.
 - D.
76. Excess cash held by a firm should be:
- A.
 - B.
 - C.
 - D.
77. Which of the following functions does *not* require financial markets?
- A.
 - B.
 - C.
 - D.
78. Which one of these was a major cause of the deep recession and severe unemployment throughout much of Europe that followed the financial crisis of 2007-2009?
- A.
 - B.
 - C.
 - D.
79. A primary market would be utilized when:
- A.
 - B.
 - C.
 - D.
80. "Balanced" mutual funds:
- A.
 - B.
 - C.
 - D.

81. Insurance companies primarily reduce an individual's risk by:
- A.
 - B.
 - C.
 - D.
82. When corporations need to raise funds through stock issues, they rely on the:
- A.
 - B.
 - C.
 - D.
83. Corporate financing comes ultimately from:
- A.
 - B.
 - C.
 - D.
84. Firms can often determine the current price of any commodities they use in their production process by consulting the price quotes provided by:
- A.
 - B.
 - C.
 - D.
85. A share of IBM stock is purchased by an individual investor for \$75 and later sold to another investor for \$125. Who profits from this sale?
- A.
 - B.
 - C.
 - D.

86. Insurance companies can usually cover the claims of policyholders because:
- A.
 - B.
 - C.
 - D.
87. Which one of the following statements is *not* a characteristic of mutual funds?
- A.
 - B.
 - C.
 - D.
88. A capital investment that generates a 10% rate of return is worthwhile if:
- A.
 - B.
 - C.
 - D.
89. How is the relationship between a bond's credit rating and its interest rate best defined?
- A.
 - B.
 - C.
 - D.
90. If Apple Computer Inc. is used as the model, then new firms should expect to raise capital in which one of these orders? Start with the first money raised.
- A.
 - B.
 - C.
 - D.

91. Which one of these correctly applies to mutual funds?
- A.
 - B.
 - C.
 - D.
92. What are three major types of financial markets? Describe what the main characteristics of each market are.
93. Describe the difference between the primary and the secondary market.
94. Describe the difference between the money and the capital market. Provide one example of each type of security that is traded in each market.

95. Describe the difference between the stock market and the fixed income market. Provide one example of each type of security that is traded in each market.
96. Describe what a financial intermediary is and does.
97. Describe what a mutual fund is.

98. What is meant by the term of liquidity why is it important?
99. Define what cost of capital is and describe why it is important.
100. Identify a minimum of four major market factors that contributed to the financial crisis of 2007-2009.

Chapter 2 **Key**

1. Only small companies can go through financial markets to obtain financing.

FALSE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #1

Difficulty: Easy

Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.

Topic: 02-02 The Flow of Savings to Corporations

2. The reinvestment of cash back into the firm's operations is an example of a flow of savings to investment.

TRUE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #2

Difficulty: Easy

Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.

Topic: 02-02 The Flow of Savings to Corporations

3. Smaller businesses are especially dependent upon internally generated funds.

TRUE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #3

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.

Topic: 02-02 The Flow of Savings to Corporations

4. An individual can save and invest in a corporation only by lending money to it or by purchasing additional shares.

FALSE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #4

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.

Topic: 02-01 The Importance of Financial Markets and Institutions

5. Previously issued securities are traded among investors in the secondary markets.

TRUE

*Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #5
Difficulty: Easy
Gradable: automatic*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-03 The Stock Market*

6. Only the IPOs for large corporations are sold in primary markets.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #6
Difficulty: Moderate
Gradable: automatic*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-03 The Stock Market*

7. The markets for long-term debt and equity are called capital markets.

TRUE

*Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #7
Difficulty: Easy
Gradable: automatic*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-04 Other Financial Markets*

8. The derivative market is also a source of financing for corporations.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #8
Difficulty: Moderate
Gradable: automatic*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-04 Other Financial Markets*

9. Apple Computer is well known for its product innovations. Access to financing was vital to Apple's growth and profitability.

TRUE

*Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #9
Difficulty: Moderate
Gradable: automatic*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-01 The Importance of Financial Markets and Institutions*

10. Whenever there is uncertainty, investors might be interested in trading, either to speculate or to lay off their risks, and a market may rise to meet the trading demand.

TRUE

*Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #10
Difficulty: Moderate
Gradable: automatic*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-04 Other Financial Markets*

11. Financing for public corporations must flow through financial markets.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #11
Difficulty: Moderate
Gradable: automatic*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-02 The Flow of Savings to Corporations*

12. Financing for private corporations must flow through financial intermediaries.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #12
Difficulty: Moderate
Gradable: automatic*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-02 The Flow of Savings to Corporations*

13. Hedge fund managers, unlike mutual fund managers, do not receive fund-performance-related fees.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #13
Difficulty: Moderate
Gradable: automatic*

*Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-05 Financial Intermediaries*

14. In the United States, banks are the most important source of long-term financing for businesses.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #14
Difficulty: Moderate
Gradable: automatic*

15. A financial intermediary invests in financial assets rather than real assets.

TRUE

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #15
Difficulty: Easy
Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-05 Financial Intermediaries

16. The stocks of major corporations trade in many markets throughout the world on a continuous or near-continuous basis.

TRUE

Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #16
Difficulty: Easy
Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-11 Liquidity

17. The key to the banks' ability to make illiquid loans is their ability to pool liquid deposits from thousands of depositors.

TRUE

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #17
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-11 Liquidity

18. For corporate bonds, the higher the credit quality of an issuer, the higher the interest rate.

FALSE

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #18
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-13 Information Provided by Financial Markets

19. Like public companies, private companies can also use their stock price as a measure of performance.

FALSE

Accessibility: Keyboard Navigation
Blooms: Comprehension

20. Financial markets and intermediaries allow investors and businesses to reduce and reallocate risk.

TRUE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #20

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.

Topic: 02-10 Risk Transfer and Diversification

21. Almost all foreign exchange trading occurs on the floors of the FOREX exchanges in New York and London.

FALSE

Accessibility: Keyboard Navigation

Blooms: Knowledge

Brealey - Chapter 02 #21

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.

Topic: 02-04 Other Financial Markets

22. The cost of capital is the interest rate paid on a loan from a bank or some other financial institution.

FALSE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #22

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-04 Explain why the cost of capital for corporate investment is determined by investment opportunities in financial markets.

Topic: 02-16 The Opportunity Cost of Capital

23. The opportunity cost of capital is the expected rate of return that shareholders can obtain in the financial markets on investments with the same risk as the firm's capital investments.

TRUE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #23

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-04 Explain why the cost of capital for corporate investment is determined by investment opportunities in financial markets.

Topic: 02-16 The Opportunity Cost of Capital

24. The cost of capital is the minimum acceptable rate of return for capital investment.

TRUE

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #24
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-04 Explain why the cost of capital for corporate investment is determined by investment opportunities in financial markets.
Topic: 02-16 The Opportunity Cost of Capital

25. The rates of return on investments outside the corporation set the minimum return for investment projects inside the corporation.

TRUE

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #25
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-04 Explain why the cost of capital for corporate investment is determined by investment opportunities in financial markets.
Topic: 02-16 The Opportunity Cost of Capital

26. During the Financial Crisis of 2007-2009, the U.S. government bailed out all firms in danger of failing.

FALSE

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #26
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-05 Recount the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: 02-17 The Crisis of 2007-2009

27. From June 2001 to June 2006, housing prices in the United States doubled.

TRUE

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #27
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-05 Recount the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: 02-17 The Crisis of 2007-2009

28. The effects of the financial crisis of 2007-2009 were confined to the U.S. and domestic companies.

FALSE

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #28
Difficulty: Moderate
Gradable: automatic

29. One root of the financial crisis of 2007-2009 was the strict money policies promoted by the U.S. Federal Reserve and other central banks after the technology bubble burst (i.e., money was relatively expensive during this time).

FALSE

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #29
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-05 Recount the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: 02-17 The Crisis of 2007-2009

30. Which one of these is a money market security?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Application
Brealey - Chapter 02 #30
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-04 Other Financial Markets

31. Which one of these assists in shifting an individual's consumption forward in time?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Application
Brealey - Chapter 02 #31
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-09 Transporting Cash Across Time

32. Which of the following is *not* typically considered a function of financial intermediaries?

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #32
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-05 Financial Intermediaries

33. Commodity and derivative markets:

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #33
Difficulty: Difficult
Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-04 Other Financial Markets

34. Which one of these transports income forward in time?

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Application
Brealey - Chapter 02 #34
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-09 Transporting Cash Across Time

35. Who was responsible for the financial crisis of 2007-2009?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation

Learning Objective: 02-05 Recount the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: 02-17 The Crisis of 2007-2009

36. Which one of the following funds not provides a tax advantage to individual investors?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #36
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-05 Financial Intermediaries

37. Which of the following financial assets is *least* likely to have an active secondary market?

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Application
Brealey - Chapter 02 #37
Difficulty: Difficult
Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-03 The Stock Market

38. A company can pay for its expansion in all the following ways *except*:

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation
Blooms: Application
Brealey - Chapter 02 #38
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-02 The Flow of Savings to Corporations

39. Short-term financing decisions commonly occur in the:

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #39
Difficulty: Easy
Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-04 Other Financial Markets

40. Long-term financing decisions commonly occur in the:

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #40
Difficulty: Easy
Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-04 Other Financial Markets

41. Which type of financial institution generally does not accept deposits but does underwrite stock offerings?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #41
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-06 Financial Institutions

42. You can buy silver in the:

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #42
Difficulty: Easy
Gradable: automatic
Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-04 Other Financial Markets

43. Which of the following actions does *not* help reduce risk?

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Application
Brealey - Chapter 02 #43
Difficulty: Moderate
Gradable: automatic
Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-10 Risk Transfer and Diversification

44. Financing for public corporations flows through:

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #44
Difficulty: Easy
Gradable: automatic
Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-02 The Flow of Savings to Corporations

45. One reason suggesting that banks may be better than individuals at matching lenders to borrowers is that banks:

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.

46. Which of the following factors contributed to the financial crisis of 2007-2009?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #46
Difficulty: Moderate
Gradable: automatic
Learning Objective: 02-05 Recount the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: 02-17 The Crisis of 2007-2009

47. Which one of the following financial intermediaries has shown the greatest preference for investing in *long-term* financial assets?

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #47
Difficulty: Moderate
Gradable: automatic
Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-05 Financial Intermediaries

48. U.S. bonds and other debt securities are mostly held by:

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #48
Difficulty: Moderate
Gradable: automatic
Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-04 Other Financial Markets

49. Financial markets and intermediaries:

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #49
Difficulty: Easy
Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-05 Financial Intermediaries

50. A bond differs from a share of stock in that a bond:

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #50
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-04 Other Financial Markets

51. Corporate debt instruments are most commonly traded:

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #51
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-04 Other Financial Markets

52.

Which one of these may provide a financial return to some investors while not providing any financial return to other investors?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #52

Difficulty: Easy

Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.

Topic: 02-06 Financial Institutions

53.

Which one of these parties *cannot* invest in a hedge fund?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #53

Difficulty: Easy

Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.

Topic: 02-05 Financial Intermediaries

54.

Which of the following are both a financial intermediary and a financial institution?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #54

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.

Topic: 02-05 Financial Intermediaries

Topic: 02-06 Financial Institutions

Topic: 02-08 Functions of Financial Markets and Intermediaries

55. Which one of these was a contributing factor to the need for many foreign banks to seek aid from their governments as a result of the financial crisis of 2007-2009?

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Application

Brealey - Chapter 02 #55

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-05 Recount the main events behind the financial crisis of 20072009 and the subsequent eurozone crisis.

Topic: 02-17 The Crisis of 2007-2009

56. Which one of these enterprises generally acts as an underwriter for an initial public offering?

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation

Blooms: Knowledge

Brealey - Chapter 02 #56

Difficulty: Easy

Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.

Topic: 02-06 Financial Institutions

57. The financial crisis of 2007-2009 contributed to the largest sovereign default in history by which one of these countries?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation

Blooms: Application

Brealey - Chapter 02 #57

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-05 Recount the main events behind the financial crisis of 20072009 and the subsequent eurozone crisis.

Topic: 02-17 The Crisis of 2007-2009

58.

The cost of capital:

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #58
Difficulty: Difficult
Gradable: automatic

Learning Objective: 02-04 Explain why the cost of capital for corporate investment is determined by investment opportunities in financial markets.
Topic: 02-16 The Opportunity Cost of Capital

59.

The cost of capital:

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #59
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-04 Explain why the cost of capital for corporate investment is determined by investment opportunities in financial markets.
Topic: 02-16 The Opportunity Cost of Capital

60.

During the Financial Crisis of 2007-2009, the U.S. government bailed out all of the following firms **except**:

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #60
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-05 Recount the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: 02-17 The Crisis of 2007-2009

61. A mother in a developing country wants to borrow the equivalent of \$20 to enable her to start a small restaurant run by her family. Which type of financing is she looking to obtain?

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation

Blooms: Application

Brealey - Chapter 02 #61

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.

Topic: 02-06 Financial Institutions

62. Which of the following information is *not* provided by the financial markets?

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation

Blooms: Application

Brealey - Chapter 02 #62

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.

Topic: 02-13 Information Provided by Financial Markets

63. Which one of the following is the biggest provider of payment mechanisms?

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #63

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.

Topic: 02-12 The Payment Mechanism

64. "Reinvestment" means:

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #64
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-02 The Flow of Savings to Corporations

65. Liquidity is important to a mutual fund primarily because:

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #65
Difficulty: Difficult
Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-11 Liquidity

66. One contributing factor to the 2007-2009 financial crisis was the structuring of mortgage loans with:

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #66
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-05 Recount the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: 02-17 The Crisis of 2007-2009

67. NINJA stands for

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Knowledge

68.

Foreign currencies are traded:

A.

B.

C.

D.

Accessibility: Keyboard Navigation

Blooms: Knowledge

Brealey - Chapter 02 #68

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.

Topic: 02-04 Other Financial Markets

69.

When Patricia sells her General Motors common stock at the same time that Brian purchases the same amount of GM stock, GM receives:

A.

B.

C.

D.

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #69

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.

Topic: 02-03 The Stock Market

70.

The main cause of the financial crisis of 2007-2009 was caused by which financial market factor?

A.

B.

C.

D.

Accessibility: Keyboard Navigation

Blooms: Application

Brealey - Chapter 02 #70

Difficulty: Difficult

Gradable: automatic

Learning Objective: 02-05 Recount the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.

Topic: 02-17 The Crisis of 2007-2009

71. The primary distinction between securities sold in the primary and secondary markets is the:

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #71
Difficulty: Moderate
Gradable: automatic
Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-03 The Stock Market

72. Which one of these is generally a key difference between U.S. and foreign commercial banks?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Blooms: Application
Brealey - Chapter 02 #72
Difficulty: Moderate
Gradable: automatic
Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-06 Financial Institutions

73. A financial institution:

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #73
Difficulty: Difficult
Gradable: automatic
Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-06 Financial Institutions

74. The 2007-2009 financial crisis was mainly caused by the following organizations.

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation

Learning Objective: 02-05 Recount the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: 02-17 The Crisis of 2007-2009

75. Which one of the following is *least* liquid?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #75
Difficulty: Moderate
Gradable: automatic
Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-11 Liquidity

76. Excess cash held by a firm should be:

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #76
Difficulty: Moderate
Gradable: automatic
Learning Objective: 02-04 Explain why the cost of capital for corporate investment is determined by investment opportunities in financial markets.
Topic: 02-16 The Opportunity Cost of Capital

77. Which of the following functions does *not* require financial markets?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #77
Difficulty: Difficult
Gradable: automatic
Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-04 Other Financial Markets
Topic: 02-08 Functions of Financial Markets and Intermediaries

78. Which one of these was a major cause of the deep recession and severe unemployment throughout much of Europe that followed the financial crisis of 2007-2009?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation

Blooms: Comprehension

Brealey - Chapter 02 #78

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-05 Recount the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.

Topic: 02-17 The Crisis of 2007-2009

79. A primary market would be utilized when:

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation

Blooms: Knowledge

Brealey - Chapter 02 #79

Difficulty: Easy

Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.

Topic: 02-03 The Stock Market

80. "Balanced" mutual funds:

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Knowledge

Brealey - Chapter 02 #80

Difficulty: Moderate

Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.

Topic: 02-05 Financial Intermediaries

81. Insurance companies primarily reduce an individual's risk by:

- A.
- B.
- C.**
- D.

*Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #81
Difficulty: Moderate
Gradable: automatic*

*Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-10 Risk Transfer and Diversification*

82. When corporations need to raise funds through stock issues, they rely on the:

- A.**
- B.
- C.
- D.

*Accessibility: Keyboard Navigation
Blooms: Knowledge
Brealey - Chapter 02 #82
Difficulty: Moderate
Gradable: automatic*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-03 The Stock Market*

83. Corporate financing comes ultimately from:

- A.**
- B.
- C.
- D.

*Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #83
Difficulty: Easy
Gradable: automatic*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-02 The Flow of Savings to Corporations*

84. Firms can often determine the current price of any commodities they use in their production process by consulting the price quotes provided by:

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Application
Brealey - Chapter 02 #84
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-13 Information Provided by Financial Markets

85. A share of IBM stock is purchased by an individual investor for \$75 and later sold to another investor for \$125. Who profits from this sale?

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Application
Brealey - Chapter 02 #85
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-03 The Stock Market

86. Insurance companies can usually cover the claims of policyholders because:

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #86
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-06 Financial Institutions

87. Which one of the following statements is *not* a characteristic of mutual funds?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #87
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-05 Financial Intermediaries

88. A capital investment that generates a 10% rate of return is worthwhile if:

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Application
Brealey - Chapter 02 #88
Difficulty: Easy
Gradable: automatic

Learning Objective: 02-04 Explain why the cost of capital for corporate investment is determined by investment opportunities in financial markets.
Topic: 02-14 Value Maximization and the Cost of Capital

89. How is the relationship between a bond's credit rating and its interest rate best defined?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #89
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-13 Information Provided by Financial Markets

90. If Apple Computer Inc. is used as the model, then new firms should expect to raise capital in which one of these orders? Start with the first money raised.

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Application
Brealey - Chapter 02 #90
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-01 The Importance of Financial Markets and Institutions

91. Which one of these correctly applies to mutual funds?

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Brealey - Chapter 02 #91
Difficulty: Moderate
Gradable: automatic

Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-05 Financial Intermediaries

92. What are three major types of financial markets? Describe what the main characteristics of each market are.

Equity market - stock market
Bond market - buy and sell bonds
Capital market - long term financing
Money Market - short term financing

Blooms: Knowledge
Brealey - Chapter 02 #92
Difficulty: Difficult
Gradable: manual

Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Topic: 02-01 The Importance of Financial Markets and Institutions

93. Describe the difference between the primary and the secondary market.

Primary market is for the sale of NEW securities.
Secondary market is for the sale of already issued securities.

*Blooms: Knowledge
Brealey - Chapter 02 #93
Difficulty: Easy
Gradable: manual*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-01 The Importance of Financial Markets and Institutions*

94. Describe the difference between the money and the capital market. Provide one example of each type of security that is traded in each market.

Money market - short term financing Example - commercial paper
Capital market - long term financing Example - bonds, shares

*Blooms: Knowledge
Brealey - Chapter 02 #94
Difficulty: Moderate
Gradable: manual*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-01 The Importance of Financial Markets and Institutions*

95. Describe the difference between the stock market and the fixed income market. Provide one example of each type of security that is traded in each market.

Stock market - buy and sell shares - shares
Fixed income market - debt - bonds

*Blooms: Knowledge
Brealey - Chapter 02 #95
Difficulty: Easy
Gradable: manual*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-01 The Importance of Financial Markets and Institutions*

96. Describe what a financial intermediary is and does.

An organization that raises money from investors and provides financing for individuals, corporations and other organizations.

*Blooms: Knowledge
Brealey - Chapter 02 #96
Difficulty: Moderate
Gradable: manual*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-01 The Importance of Financial Markets and Institutions*

97. Describe what a mutual fund is.

A managed investment fund, pooling the savings of many investors and investing in a portfolio of securities.

*Blooms: Knowledge
Brealey - Chapter 02 #97
Difficulty: Easy
Gradable: manual*

*Learning Objective: 02-01 Describe how financial markets and institutions channel savings to corporate investment.
Learning Objective: 02-02 Describe the basic structure of mutual funds, pension funds, banks, and insurance companies.
Topic: 02-01 The Importance of Financial Markets and Institutions*

98. What is meant by the term of liquidity why is it important?

The ability to sell or exchange an asset for cash on short notice, without a significant loss in economic value. It is important because bills are normally paid in cash as they become due. Lack of liquidity will lead to default and eventually bankruptcy.

*Blooms: Comprehension
Brealey - Chapter 02 #98
Difficulty: Moderate
Gradable: manual*

*Learning Objective: 02-03 Enumerate the functions of financial markets and institutions.
Topic: 02-08 Functions of Financial Markets and Intermediaries*

99. Define what cost of capital is and describe why it is important.

Cost of capital is the minimum required rate of return on capital investments. It is important because it helps an organization differentiate between investments that will increase or decrease the value of the organization.

*Blooms: Knowledge
Brealey - Chapter 02 #99
Difficulty: Moderate
Gradable: manual*

*Learning Objective: 02-04 Explain why the cost of capital for corporate investment is determined by investment opportunities in financial markets.
Topic: 02-14 Value Maximization and the Cost of Capital*

100. Identify a minimum of four major market factors that contributed to the financial crisis of 2007-2009.

1. The Federal Reserve for its easy money policy
2. The US government for encouraging banks to expand credit for low income housing
3. The rating agencies for providing triple-A ratings for mortgage bonds that shortly afterward went into default
4. Bankers for promoting and reselling subprime mortgages.

*Blooms: Knowledge
Brealey - Chapter 02 #100
Difficulty: Difficult
Gradable: manual*

*Learning Objective: 02-05 Recount the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: 02-17 The Crisis of 2007-2009*

Chapter 2 Summary