

Chapter 02 Security Markets

Student: _____

1. Deregulation of financial institutions and mergers has created a more competitive environment for retail brokerage houses.

True False
2. International competition from world markets has had very little effect on U.S. exchanges.

True False
3. When an investment bank sells securities on a best efforts basis, it assumes all risk of the offering.

True False
4. In the distribution of corporate bond issues, private placements to large insurance companies dominate the volume of public offerings.

True False
5. A shelf registration enables an investment banker to sell a small portion of an issue without forming a syndicate.

True False
6. The regional exchange plays an important part in the trading markets.

True False
7. The American Stock Exchange's main competitor in the options and futures markets is the New York Stock Exchange.

True False
8. During the last decade, the financial markets have changed at a rapid pace.

True False

9. At the end of 2009, Citigroup (Smith Barney), JPMorgan, and Barclay's Capital were three of the top ranked investment bankers in the underwriting of both global and domestic equity issues.
- True False
10. Bringing private companies public for the first time is called an initial public offering.
- True False
11. The Chicago Stock Exchange is the only one of the regional stock exchanges still viable.
- True False
12. NASDAQ ranks as the largest equity market in the world.
- True False
13. Stocks traded over-the-counter, like through NASDAQ, have no centrally located market location.
- True False
14. The rise of financial-service firms through mergers and the consolidation of brokerage companies have resulted from significant changes in the banking laws.
- True False
15. The NASDAQ stock market is a publicly traded corporation.
- True False
16. A market is a way of exchanging assets.
- True False
17. All markets must have a physical central trading location.
- True False
18. One characteristic of efficient markets is that prices adjust rapidly to new information.
- True False

19. Efficient markets need not be liquid, as long as buyers and sellers can eventually get a fair price for the assets they trade.
- True False
20. Primary markets are for new issues of securities.
- True False
21. Secondary markets are for existing securities.
- True False
22. The investment banker assumes a price risk under a best efforts agreement.
- True False
23. When investment bankers underwrite a security, they usually guarantee purchase of the securities at a fixed price for the selling firm.
- True False
24. The major functions of an investment banker are performed as part of the operations of the secondary market.
- True False
25. Super Dot refers to the New York Stock Exchange's designated order transfer system, which allows NYSE member firms to electronically transmit all market and limit orders directly to the specialist at the trading post.
- True False
26. As a part of Super Dot, specialists are informed through Opening Automated Report Service (OARS) of market orders received before the opening bell.
- True False
27. Specialists buy and sell for their own account.
- True False

28. Secondary markets include only organized exchanges such as the NYSE and the regional exchanges.
- True False
29. The U.S. treasury often uses investment bankers to sell new issues of government securities.
- True False
30. Under the Securities Act of 1933, the SEC can certify that a stock is fairly priced.
- True False
31. Only the Chicago regional exchange is still viable, with Philadelphia and Boston being bought by NASDAQ.
- True False
32. A security traded on an exchange must meet listing requirements.
- True False
33. Floor brokers act as agents for clients and execute buy and sell orders on the floor of the NYSE exchange.
- True False
34. A specialist is supposed to maintain an orderly market.
- True False
35. Specialists are now able to keep their limit orders in the Electronic Book rather than the old manual "specialist's book."
- True False
36. NASDAQ is directly related to the operations of the NYSE.
- True False

37. Based on dollar volume of stocks and bonds, the NASDAQ is the second largest of all markets in the United States.
- True False
38. According to insider trading rules of the SEC, securities analysts and financial writers may not trade on insider information, but these rules do not extend to relatives and friends.
- True False
39. The Intercontinental Exchange (ICE) is now operating 24 hours per day using a computerized trading system.
- True False
40. The use of the NASDAQ Automated Quotation System has increased the number of equity trades on the American Stock Exchange.
- True False
41. Program trading decreases market efficiency by exaggerating price discrepancies between the cash and futures markets.
- True False
42. Shelf registration is more popular with new bond offerings than with new stock offerings.
- True False
43. Underwriters are less concerned with the fees from their activities than simply the amount of dollars underwritten.
- True False
44. The investment banker acts as a middleman in the process of raising new funds for corporations and governments.
- True False
45. In the NASDAQ market, it is now permitted to charge fees for data feeds and market information.
- True False

46. The largest segment of the Over-the-Counter (OTC) Market, in terms of dollar volume, is the U.S. government securities markets.
- True False
47. Program trading simply means that trades are executed on computer programs written by the SEC.
- True False
48. Electronic communication networks (ECNs) automatically match buy and sell orders at specified prices, and orders are not routed to the floor of an exchange before processing.
- True False
49. The Gramm-Leach-Bliley Act repealed the Glass-Steagall Act, which restricted commercial banks from also being in the investment banking business.
- True False
50. One of the main reasons institutional investors like ECNs is that they allow anonymity in trading.
- True False
51. There is concern by the SEC and Congress that dark pools create a two-tier market.
- True False
52. Circuit breakers will shut down the market for a period of time if a dramatic drop in stock prices occurs.
- True False
53. If the DJIA declines by 10% in the time between 2:00-2:30 PM, a 30 minute halt to trading occurs.
- True False
54. Because of the 1987 market collapse, the SEC put circuit breakers into effect.
- True False

55. The cost of compliance with the Sarbanes-Oxley Act has had little effect on the willingness of foreign companies to list their shares on U.S. stock exchanges.
- True False
56. Many large technology companies listed on NASDAQ could easily meet the NYSE listing standards.
- True False
57. A means of exchanging assets, which may or may not include a specified location, and in which the seller may or may not own the assets being sold, is called:
- A.
B.
C.
D.
58. Creating prices for securities and allowing for liquidity are functions of:
- A.
B.
C.
D.
E.
59. In the _____ market, existing assets are exchanged between investors, while in the _____ market, participants buy their assets directly from the source of the asset.
- A.
B.
C.
D.
E.

60. Which of the following best describes the function of an investment banker selling an issue on a "best efforts" basis?
- A.
 - B.
 - C.
 - D.
 - E.
61. The process of selling a new issue of securities so that the price is guaranteed to the selling firm is referred to as:
- A.
 - B.
 - C.
 - D.
 - E.
62. The least popular form of distributing corporate securities is:
- A.
 - B.
 - C.
 - D.
 - E.
63. Bringing private companies public for the first time is called:
- A.
 - B.
 - C.
 - D.
 - E.

64. From the investment banker's point of view, the major reason syndicates are formed in the distribution of large issues is for the purpose of:
- A.
 - B.
 - C.
 - D.
 - E.
65. A syndicate is formed to:
- A.
 - B.
 - C.
 - D.
66. Which of the following is NOT a characteristic of an organized exchange?
- A.
 - B.
 - C.
 - D.
 - E.
67. The exchange with the largest dollar volume in major companies and which has the most restrictive listing requirements is:
- A.
 - B.
 - C.
 - D.
68. Dual trading creates the following benefit:
- A.
 - B.
 - C.
 - D.

69. An employee of an investment house who executes orders on the floor of the exchange for customers of the firm is called a:
- A.
 - B.
 - C.
 - D.
 - E.
70. A person who is registered to trade on an exchange, who owns a seat but is not an employee of any member firm is a:
- A.
 - B.
 - C.
 - D.
 - E.
71. _____ has two major functions: to handle special orders, such as purchases with a price contingency, and to maintain continuous, liquid, orderly markets.
- A.
 - B.
 - C.
 - D.
72. The major exchange for warrants, options, and commodity futures is the:
- A.
 - B.
 - C.
 - D.
73. The _____ is a futures market for common stock, while the _____ is a futures market for commodities and financial instruments.
- A.
 - B.
 - C.
 - D.

74. Which of the following is true of over-the-counter markets?
- A.
 - B.
 - C.
 - D.
75. ECNs provide several advantages to investors. Which of the following is not an advantage?
- A.
 - B.
 - C.
 - D.
76. Electronic communication systems:
- A.
 - B.
 - C.
 - D.
77. Full disclosure of all pertinent investment information in the sale of new securities is a provision of the:
- A.
 - B.
 - C.
 - D.
 - E.
78. The Securities and Exchange Commission was created by the:
- A.
 - B.
 - C.
 - D.

79. Program trading
- A.
 - B.
 - C.
 - D.
80. The Securities Investor Protection Corporation (SIPC) was established to:
- A.
 - B.
 - C.
 - D.
81. In order to be listed on an exchange, a firm must meet minimum standards pertaining to the following criteria:
- A.
 - B.
 - C.
 - D.
82. In general, markets are efficient when:
- A.
 - B.
 - C.
 - D.
83. Secondary markets provide everything except:
- A.
 - B.
 - C.
 - D.
84. A difference between the primary market and the secondary market is:
- A.
 - B.
 - C.
 - D.

85. The investment banker is responsible for everything except:
- A.
 - B.
 - C.
 - D.
86. A house broker is one who:
- A.
 - B.
 - C.
 - D.
87. One of the functions of a specialist is:
- A.
 - B.
 - C.
 - D.
88. The Gramm-Leach-Bliley Act was passed in 1999 by the U.S. Congress to allow:
- A.
 - B.
 - C.
 - D.
89. The first exchange to become a publicly traded company was the:
- A.
 - B.
 - C.
 - D.
 - E.

90. The accounting frauds and scandals that took place during the stock market boom of the late 1990s resulted in what significant Act?
- A.
 - B.
 - C.
 - D.
 - E.
91. The Sarbanes-Oxley Act:
- A.
 - B.
 - C.
 - D.
 - E.
92. The _____ has/have the most restrictive listing requirements.
- A.
 - B.
 - C.
 - D.
 - E.
93. Initial and annual listing fees are highest for _____-listed stocks.
- A.
 - B.
 - C.
 - D.
 - E.

94. Why was the Sarbanes-Oxley Act enacted?

95. What are ECNs?

Chapter 02 Security Markets **Key**

1. Deregulation of financial institutions and mergers has created a more competitive environment for retail brokerage houses.

TRUE

Financial institutions may now offer the full financial services of commercial banking, insurance, and brokerage firms after passage of the Graham- Leach-Bliley Act of 1999.

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Hirt - Chapter 02 #1*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Market Environment*

2. International competition from world markets has had very little effect on U.S. exchanges.

FALSE

The Graham-Leach-Bliley Act of 1999 allowed U.S. financial institutions to offer full services, putting them in competition with other institutions, some of which were international. The Sarbanes-Oxley Act strengthened the U.S. securities laws, making it attractive for U.S. exchanges to merge with foreign exchanges in order to allow companies to list on the exchange of their choice. With U.S. exchanges merged with foreign exchanges, the ability to bypass the stringent regulations of the Sarbanes-Oxley Act was achieved. Also, as more international and multi-national companies raise capital around the world, investment banking has become global.

*AACSB: Reflective Thinking
Blooms: Analyze
Difficulty: 3 Hard
Hirt - Chapter 02 #2*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Market Environment*

3.

When an investment bank sells securities on a best efforts basis, it assumes all risk of the offering.

FALSE

On a best efforts basis, the issuing firm assumes the risk and simply buys back any securities not sold after a fixed period.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #3

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.
Topic: Organization of the Primary Markets: The Investment Banker

4.

In the distribution of corporate bond issues, private placements to large insurance companies dominate the volume of public offerings.

FALSE

Publicly offered bonds issued through underwriters, as opposed to privately placed issues, are by far the most popular method of raising debt capital.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #4

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.
Topic: Organization of the Primary Markets: The Investment Banker

5.

A shelf registration enables an investment banker to sell a small portion of an issue without forming a syndicate.

TRUE

A shelf registration allows issuing firms to register their securities with the SEC and then sell them at will as funds are needed in the future. Over time, this allows bankers to buy portions of the shelf issue and immediately resell the securities to institutional clients, without forming the normal syndicate of tying up capital for several weeks.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #5

Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Organization of the Primary Markets: The Investment Banker

6.

The regional exchange plays an important part in the trading markets.

FALSE

Regional exchanges began their existence trading the stock of local companies. But these companies grew and began trading on the larger exchanges. Very few trades are now done in local companies since the rise of electronic trading. Regional exchanges have essentially lost their reason for existence.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #6

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: Organization of the Primary Markets: The Investment Banker

7.

The American Stock Exchange's main competitor in the options and futures markets is the New York Stock Exchange.

FALSE

The AMEX became part of the NYSE Euronext group of exchanges in 2008. Therefore, it is not in competition with the NYSE. Before becoming part of the NYSE Euronext group, it was focused on other areas, such as put and call options, not options and futures.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #7

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: Organization of the Secondary Market

8.

During the last decade, the financial markets have changed at a rapid pace.

TRUE

The last ten years have been ones of deregulation, new laws, mergers, global consolidation, online brokerage (Internet), electronic communication networks (ECNs), and the transformation of most securities markets from not-for-profit organizations to for-profit organizations with common stock available for purchase by the public.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #8

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: The Market Environment

9.

At the end of 2009, Citigroup (Smith Barney), JPMorgan, and Barclay's Capital were three of the top ranked investment bankers in the underwriting of both global and domestic equity issues.

TRUE

Refer to Table 2-1. Table 2-1 gives the rankings of the investment bankers in the underwriting of both global and domestic issues.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #9

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.

Topic: Organization of the Primary Markets: The Investment Banker

10.

Bringing private companies public for the first time is called an initial public offering.

TRUE

This is the definition of an initial public offering (IPO).

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #10

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.

Topic: Organization of the Primary Markets: The Investment Banker

11. The Chicago Stock Exchange is the only one of the regional stock exchanges still viable.

TRUE

With the advent of electronic trading, the regional stock exchanges have lost their reason for existence. Boston and Philadelphia were bought by NASDAQ.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #11*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Organization of the Secondary Market*

12. NASDAQ ranks as the largest equity market in the world.

FALSE

The world's largest exchange is the NYSE Euronext exchange.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #12*

*Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.
Topic: The Organization of the NYSE*

13. Stocks traded over-the-counter, like through NASDAQ, have no centrally located market location.

TRUE

Stocks sold over-the-counter, like those traded on NASDAQ, have no centrally located markets. They are sold over a network of computers by individual brokerages that form the network.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #13*

*Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.
Topic: Organization of the Secondary Market*

14. The rise of financial-service firms through mergers and the consolidation of brokerage companies have resulted from significant changes in the banking laws.

TRUE

These mergers and acquisitions were made possible by changes to the banking laws, allowing financial institutions to offer the full financial services of commercial banking, investment banking, insurance, and brokerage firms.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #14*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Market Environment*

15. The NASDAQ stock market is a publicly traded corporation.

TRUE

Like the NYSE, NASDAQ has gone from a not-for-profit organization to a for-profit organization.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #15*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The NASDAQ Stock Market*

16. A market is a way of exchanging assets.

TRUE

A market is a way of exchanging assets, usually cash.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #16*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Market Functions*

17. All markets must have a physical central trading location.

FALSE

There does not have to be a central location for a market. As long as there can be communication between buyers and sellers, the exchange of assets can occur.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #17*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Market Functions*

18. One characteristic of efficient markets is that prices adjust rapidly to new information.

TRUE

An efficient market occurs when prices respond quickly to new information, when each successive trade is made at a price close to the preceding price, and when the market can absorb large amounts of securities or assets without changing the price significantly.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #18*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Market Functions*

19. Efficient markets need not be liquid, as long as buyers and sellers can eventually get a fair price for the assets they trade.

FALSE

The more efficient the market, the faster the price reacts to new information; the closer in price is each successive trade; and the greater the amount of securities that can be sold without changing the price. For markets to be efficient in this context, they must be liquid.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #19*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Market Functions*

20. Primary markets are for new issues of securities.
- TRUE**
- Participants in the primary market buy the new issues of securities directly from the source of the assets.
- AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #20
Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Market Functions
21. Secondary markets are for existing securities.
- TRUE**
- Secondary markets are for existing assets that are currently traded between investors.
- AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #21
Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Market Functions
22. The investment banker assumes a price risk under a best efforts agreement.
- FALSE**
- On a best efforts basis, the issuing firm assumes the risk, and simply takes back any securities not sold after a fixed period.
- AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #22
Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.
Topic: Organization of the Primary Markets: The Investment Banker

23. When investment bankers underwrite a security, they usually guarantee purchase of the securities at a fixed price for the selling firm.

TRUE

This is the definition of what an investment banker does in the underwriting function.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #23

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.
Topic: Organization of the Primary Markets: The Investment Banker

24. The major functions of an investment banker are performed as part of the operations of the secondary market.

FALSE

The most active participant in the primary market is the investment banker. Investment bankers do not participate in the secondary market. Investment bankers help companies sell new securities in the primary market.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #24

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.
Topic: Organization of the Primary Markets: The Investment Banker

25. Super Dot refers to the New York Stock Exchange's designated order transfer system, which allows NYSE member firms to electronically transmit all market and limit orders directly to the specialist at the trading post.

TRUE

In response to criticism from market watchers that NASDAQ provided more price stability and fluid markets than the NYSE, the NYSE created computer systems that help the specialists manage order inflows more efficiently. This is Super Dot, a designated order transfer system.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #25

Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.

26. As a part of Super Dot, specialists are informed through Opening Automated Report Service (OARS) of market orders received before the opening bell.

TRUE

This is the definition of OARS.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #26

Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.
Topic: The Organization of the NYSE

27. Specialists buy and sell for their own account.

TRUE

As the second major task of a specialist, when a broker gets an order to buy an amount of stock, and when reaching the trading post no seller is present, the broker can't wait for one to appear, since he has other orders to execute. In this case, the broker can buy the shares from the specialist, who acts as a dealer, in this case buying for and selling from his own inventory.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #27

Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.
Topic: The Organization of the NYSE

28. Secondary markets include only organized exchanges such as the NYSE and the regional exchanges.

FALSE

Secondary markets include markets with central locations and also electronic markets such as over-the-counter markets and the electronic communication network (ECN).

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #28

Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Organization of the Secondary Market

29. The U.S. treasury often uses investment bankers to sell new issues of government securities.

FALSE

The U.S. Treasury issues securities through the Federal Reserve, essentially acting as an investment banker.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #29*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Organization of the Secondary Market*

30. Under the Securities Act of 1933, the SEC can certify that a stock is fairly priced.

FALSE

The SEC in no way certifies that the security is fairly priced, but only that the information seems to be factual and accurate.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #30*

*Learning Objective: 02-05 Understand the important legislation that affects the operations of the capital markets.
Topic: Regulation of the Securities Markets*

31. Only the Chicago regional exchange is still viable, with Philadelphia and Boston being bought by NASDAQ.

TRUE

The regional exchanges have lost their viability with the advent of electronic trading, and only the Chicago regional exchange is still viable after NASDAQ purchased the Philadelphia and Boston regional exchanges.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #31*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Organization of the Secondary Market*

32. A security traded on an exchange must meet listing requirements.

TRUE

The only way that a firm's securities can be traded on an exchange is if the company meets the listing requirements.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #32

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: The Organization of the NYSE

33. Floor brokers act as agents for clients and execute buy and sell orders on the floor of the NYSE exchange.

TRUE

This is the definition of a floor trader on the NYSE.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #33

Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.

Topic: The Organization of the NYSE

34. A specialist is supposed to maintain an orderly market.

TRUE

The second major task of specialists is to maintain continuous, liquid, and orderly markets in their assigned stocks.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #34

Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.

Topic: The Organization of the NYSE

35. Specialists are now able to keep their limit orders in the Electronic Book rather than the old manual "specialist's book."

TRUE

The Electronic Book is a feature of Super Dot. This database covers stocks listed on the NYSE and keeps track of limit orders and market orders for the specialist.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy*

Hirt - Chapter 02 #35

Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.

Topic: The Organization of the NYSE

36. NASDAQ is directly related to the operations of the NYSE.

FALSE

The NASDAQ became a nationally recognized national securities exchange in 2006. It is separate from the NYSE.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy*

Hirt - Chapter 02 #36

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: The NASDAQ Stock Market

37. Based on dollar volume of stocks and bonds, the NASDAQ is the second largest of all markets in the United States.

TRUE

NASDAQ is the second largest securities market in the U.S. by dollar volume but often trades more shares on a daily basis than the NYSE.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy*

Hirt - Chapter 02 #37

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: The NASDAQ Stock Market

38. According to insider trading rules of the SEC, securities analysts and financial writers may not trade on insider information, but these rules do not extend to relatives and friends.

FALSE

The Securities Exchange Act of 1934 (and amended over the last two decades) set the guidelines for insider trading, which now includes securities analysts, financial writers, relatives, friends, and anyone having information which was not public knowledge.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #38*

*Learning Objective: 02-05 Understand the important legislation that affects the operations of the capital markets.
Topic: Regulation of the Securities Markets*

39. The Intercontinental Exchange (ICE) is now operating 24 hours per day using a computerized trading system.

TRUE

ICE was created in 2000 to create a 24 hour electronic market for energy contracts.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #39*

*Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.
Topic: Other Exchanges*

40. The use of the NASDAQ Automated Quotation System has increased the number of equity trades on the American Stock Exchange.

FALSE

The NASDAQ is separate from the American Stock Exchange, which is now part of the NYSE Euronext group of exchanges.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #40*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The NASDAQ Stock Market*

41. Program trading decreases market efficiency by exaggerating price discrepancies between the cash and futures markets.

FALSE

Program Trading simply means that computer trigger points are established in which large volume trades can be initiated by institutional investors.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy*

*Hirt - Chapter 02 #41
Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Institutional Trading*

42. Shelf registration is more popular with new bond offerings than with new stock offerings.

TRUE

A shelf registration allows issuing firms to register their securities with the SEC and then sell them at will as funds are needed in the future. Shelf registration is more popular with bond offerings than with stock offerings.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy*

*Hirt - Chapter 02 #42
Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Organization of the Primary Markets: The Investment Banker*

43. Underwriters are less concerned with the fees from their activities than simply the amount of dollars underwritten.

FALSE

Investment bankers make a commitment to purchase shares at a discount to the public price and sell at the offered price. The difference is their fee, which is their profit. A company must be concerned with profit to stay in business.

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Hirt - Chapter 02 #43*

*Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.
Topic: Organization of the Primary Markets: The Investment Banker*

44. The investment banker acts as a middleman in the process of raising new funds for corporations and governments.

TRUE

This is the definition of an investment banker, who also takes a risk by underwriting an issue of securities.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #44*

*Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.
Topic: Organization of the Primary Markets: The Investment Banker*

45. In the NASDAQ market, it is now permitted to charge fees for data feeds and market information.

TRUE

Now that NASDAQ is officially recognized as a national securities exchange by the SEC, it is allowed to charge fees for data feeds and market information.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #45*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The NASDAQ Stock Market*

46. The largest segment of the Over-the-Counter (OTC) Market, in terms of dollar volume, is the U.S. government securities markets.

TRUE

The U.S. government securities market accounts for the largest segment of the OTC market in dollar volume. The volume is in the billions of dollars.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #46*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Over-the-Counter Markets*

47. Program trading simply means that trades are executed on computer programs written by the SEC.

FALSE

Program trading simply means that computer trigger points are established, in which large volume trades can be initiated by institutional investors.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy*

*Hirt - Chapter 02 #47
Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Institutional Trading*

48. Electronic communication networks (ECNs) automatically match buy and sell orders at specified prices, and orders are not routed to the floor of an exchange before processing.

TRUE

This is the definition of ECNs. They are not routed to the floor of an exchange. Both the NYSE and NASDAQ have acquired the leading ECNs.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy*

*Hirt - Chapter 02 #48
Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Electronic Communication Networks*

49. The Gramm-Leach-Bliley Act repealed the Glass-Steagall Act, which restricted commercial banks from also being in the investment banking business.

TRUE

The Gramm-Leach-Bliley Act repealed the Glass-Steagall Act, enabling commercial banks to be in the investment banking business.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy*

*Hirt - Chapter 02 #49
Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Market Environment*

50. One of the main reasons institutional investors like ECNs is that they allow anonymity in trading.

TRUE

Institutional investors have developed electronic networks called dark pools to cross trades anonymously so that the trade cannot be seen by competitors.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #50*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Institutional Trading*

51. There is concern by the SEC and Congress that dark pools create a two-tier market.

TRUE

Refer to Real World of Investing box, Dark Pools. The SEC and Congress want more transparency to trades so all can see the information necessary.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #51*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Institutional Investing*

52. Circuit breakers will shut down the market for a period of time if a dramatic drop in stock prices occurs.

TRUE

Refer to Figure 2-2. Circuit breakers are designed to prevent large declines in the market in a short period of time. They are a function of the time of day and the percentage decrease. They are a safeguard against a catastrophic market collapse.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #52*

*Learning Objective: 02-04 Explain the potential impact of algorithmic program trading.
Topic: Institutional Trading*

53. If the DJIA declines by 10% in the time between 2:00-2:30 PM, a 30 minute halt to trading occurs.

TRUE

Refer to Figure 2-2. Figure 2-2 gives the time intervals when trading halts occur.

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Hirt - Chapter 02 #53*

*Learning Objective: 02-04 Explain the potential impact of algorithmic program trading.
Topic: Institutional Trading*

54. Because of the 1987 market collapse, the SEC put circuit breakers into effect.

TRUE

The 22% decline in the market on October 19, 1987, encouraged the SEC to institute circuit breakers to prevent a catastrophic market collapse due to program trading, as was thought by some to be the reason for the 1987 market fall.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #54*

*Learning Objective: 02-04 Explain the potential impact of algorithmic program trading.
Topic: Institutional Investing*

55. The cost of compliance with the Sarbanes-Oxley Act has had little effect on the willingness of foreign companies to list their shares on U.S. stock exchanges.

FALSE

The costs of the Sarbanes-Oxley Act, and the heavy penalties for those found guilty of improprieties, have had a significant negative effect on the willingness of foreign companies to list their shares on U.S. exchanges. This has been a reason for U.S. exchanges to merge with foreign exchanges.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #55*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Market Environment*

56. Many large technology companies listed on NASDAQ could easily meet the NYSE listing standards.

TRUE

The listing requirements are lower on the NASDAQ than on the NYSE. Small companies that chose to list on the NASDAQ early in their life decided to stay even after they exceeded the NYSE requirements.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy*

*Hirt - Chapter 02 #56
Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The NASDAQ Stock Market*

57. A means of exchanging assets, which may or may not include a specified location, and in which the seller may or may not own the assets being sold, is called:

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

The means of exchanging assets defines a market. As long as the buyer and seller can communicate, the exchange can occur. Also, an agent can act for the owner, so a seller may not own the assets.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #57*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Market Functions*

58. Creating prices for securities and allowing for liquidity are functions of:

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

The secondary market functions to create prices and allow liquidity through trading of existing assets between investors.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #58
Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Market Functions

59. In the _____ market, existing assets are exchanged between investors, while in the _____ market, participants buy their assets directly from the source of the asset.

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

Instead of trading between investors as in the secondary market, participants in the primary market buy their assets directly from the source of the asset.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #59
Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Market Functions

60.

Which of the following best describes the function of an investment banker selling an issue on a "best efforts" basis?

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

On a best efforts basis, the issuing firm assumes the risk, and buys back any securities not sold after a fixed period.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #60

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.
Topic: Organization of the Primary Markets: The Investment Banker

61.

The process of selling a new issue of securities so that the price is guaranteed to the selling firm is referred to as:

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

Underwriting is the guarantee the investment banking firm gives the selling firm to purchase its securities at a fixed price, thereby eliminating the risk of not selling the whole issue of securities and having less cash than desired.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #61

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.
Topic: Organization of the Primary Markets: The Investment Banker

62. The least popular form of distributing corporate securities is:
- A.
 - B.
 - C.
 - D.
 - E.**

Since corporations, states, and local governments do not sell new securities on any time basis, they usually rely on the expertise of the investment banker when selling securities.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #62

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.

Topic: Organization of the Primary Markets: The Investment Banker

63. Bringing private companies public for the first time is called:
- A.
 - B.**
 - C.
 - D.
 - E.

An IPO is an Initial Public Offering handled by the investment banker. It is an offering of stock to the public for the first time.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #63

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.

Topic: Organization of the Primary Markets: The Investment Banker

64.

From the investment banker's point of view, the major reason syndicates are formed in the distribution of large issues is for the purpose of:

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

Investment banking firms will share the risk and burden of distribution by forming a group called a syndicate.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #64

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.

Topic: Organization of the Primary Markets: The Investment Banker

65.

A syndicate is formed to:

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

Syndicates are formed to share the risk of distribution among members, and since they are often numerous, they are able to distribute the securities to a wide group of investors and improve the liquidity and marketability of an offering through continuous trading.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Hirt - Chapter 02 #65

Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.

Topic: Organization of the Primary Markets: The Investment Banker

66.

Which of the following is NOT a characteristic of an organized exchange?

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

Organized exchanges are part of the secondary market.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #66*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Organization of the Secondary Market*

67.

The exchange with the largest dollar volume in major companies and which has the most restrictive listing requirements is:

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

The NYSE handles the largest dollar volume of all exchanges, and since it deals primarily with large companies who have large cash needs, it also has the most restrictive listing requirements.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #67*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Organization of the NYSE*

68. Dual trading creates the following benefit:

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

Dual trading means being listed on more than one market. Liquidity is improved, since with exposure to more participants, more continuous trading occurs.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #68

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: Organization of the Secondary Market

69. An employee of an investment house who executes orders on the floor of the exchange for customers of the firm is called a:

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

This is the definition of a floor broker.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #69

Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.

Topic: The Organization of the NYSE

70.

A person who is registered to trade on an exchange, who owns a seat but is not an employee of any member firm is a:

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

A floor broker who isn't employed by a firm is a type of floor broker called an independent broker. Since independent brokers are registered to sell securities, they are registered traders.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy*

*Hirt - Chapter 02 #70
Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Organization of the NYSE*

71.

_____ has two major functions: to handle special orders, such as purchases with a price contingency, and to maintain continuous, liquid, orderly markets.

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

The five major functions of a specialist can be summarized in two duties: handle special orders, and maintain continuous, liquid, orderly markets.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #71*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Organization of the NYSE*

72.

The major exchange for warrants, options, and commodity futures is the:

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

There is no major exchange for all of these investments. The NYSE and NASDAQ trade warrants and options; the Chicago Mercantile Exchange (CME) Group is the largest commodity futures market.

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Hirt - Chapter 02 #72*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Organization of the NYSE*

73.

The _____ is a futures market for common stock, while the _____ is a futures market for commodities and financial instruments.

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

CME (Chicago Mercantile Exchange) Group merged with the Chicago Board of Trade, and is now the world's largest futures market.

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Hirt - Chapter 02 #73*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Other Exchanges*

74. Which of the following is true of over-the-counter markets?

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

All the above are true of OTC markets.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #74*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Over-the-Counter Markets*

75. ECNs provide several advantages to investors. Which of the following is not an advantage?

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

ECNs match buy and sell orders from individual or institutional investors. They do not let everyone know who is making the trade.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #75*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Electronic Communication Networks*

76. Electronic communication systems:

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

This is the definition of ECNs.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #76*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Electronic Communication Networks*

77. Full disclosure of all pertinent investment information in the sale of new securities is a provision of the:

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

The detailed summary of all the pertinent information in the sale of securities is called a prospectus, and is required by the SEC under the Securities Act of 1933.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #77

Learning Objective: 02-05 Understand the important legislation that affects the operations of the capital markets.
Topic: Regulation of the Securities Markets

78. The Securities and Exchange Commission was created by the:

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

This act created the SEC.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #78

Learning Objective: 02-05 Understand the important legislation that affects the operations of the capital markets.
Topic: Regulation of the Securities Markets

79.

Program trading

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

Program trading has caused some serious declines in the market, most notably in 1987. The SEC instituted circuit breakers to prevent catastrophic collapse of the market. Securities exchanges are likely to institute program trading restrictions before the government further regulates them.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #79*

*Learning Objective: 02-05 Understand the important legislation that affects the operations of the capital markets.
Topic: Institutional Trading*

80.

The Securities Investor Protection Corporation (SIPC) was established to:

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

The SIPC was established to protect investors, much like the FDIC protects bank depositors.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #80*

*Learning Objective: 02-05 Understand the important legislation that affects the operations of the capital markets.
Topic: Other Legislation*

81.

In order to be listed on an exchange, a firm must meet minimum standards pertaining to the following criteria:

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

These criteria must be met to be listed on an exchange.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #81

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: Organization of the Secondary Market

82.

In general, markets are efficient when:

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

Markets are efficient when prices respond quickly to new information, each successive trade is made at a price close to the preceding price, and they can absorb large amounts of securities or assets without changing the price significantly.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #82

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: Market Functions

83. Secondary markets provide everything except:

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

Secondary markets create prices and allow for liquidity. They also provide continuity, efficiency, and competition.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #83*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Market Functions*

84. A difference between the primary market and the secondary market is:

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

Price competition in the secondary markets between different risk-return classes enables the primary market to price new issues at higher prices to reflect existing risk-return relationships.

*AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Hirt - Chapter 02 #84*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Organization of the Secondary Market*

85. The investment banker is responsible for everything except:

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

The investment banker shares the distribution process with the syndicate. When the issue is large, there will be more participants in the syndicate. This provides for a wider distribution.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #85*

*Learning Objective: 02-02 Explain the role that the investment banker plays in an initial public offering.
Topic: Organization of the Primary Markets: The Investment Banker*

86. A house broker is one who:

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

A house broker represents NYSE firms. They either trade for clients of the investment house or for the firm's direct account.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #86*

*Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.
Topic: The Organization of the NYSE*

87. One of the functions of a specialist is:

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

The five functions of a specialist: (1) manage the auction process, (2) execute special orders for floor brokers, (3) serve as catalysts, (4) provide capital, and (5) stabilize prices.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #87*

*Learning Objective: 02-03 Discuss the difference between floor trading and electronic trading.
Topic: The Organization of the NYSE*

88. The Gramm-Leach-Bliley Act was passed in 1999 by the U.S. Congress to allow:

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

The Gramm-Leach-Bliley Act was passed in 1999 by the U.S. Congress to allow financial institutions to offer full financial services, such as insurance and investment banking, as well as traditional commercial banking.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #88*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Market Environment*

89. The first exchange to become a publicly traded company was the:

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

The first exchange to become a publicly traded company was the Chicago Mercantile Exchange, at the end of 2001.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #89*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Market Environment*

90. The accounting frauds and scandals that took place during the stock market boom of the late 1990s resulted in what significant Act?

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

The Sarbanes-Oxley Act was enacted after the accounting frauds and scandals that took place during the stock market boom of the late 1990s.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #90*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Market Environment*

91.

The Sarbanes-Oxley Act:

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

The cost of compliance with the Sarbanes-Oxley Act, and the heavy penalties for those found guilty of violating it, have had a significant negative effect on the willingness of foreign companies to list their shares on U.S. stock exchanges.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #91

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: The Market Environment

92.

The _____ has/have the most restrictive listing requirements.

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

Since the NYSE is the biggest exchange and generates the most dollar volume in large, well-known companies, its listing requirements are the most restrictive.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #92

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: Organization of the Secondary Market

93. Initial and annual listing fees are highest for _____-listed stocks.

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

According to the NASDAQ, a company having 100,000,000 shares outstanding would pay an annual listing fee of \$61,750 to NASDAQ or \$93,000 to the NYSE. The initial listing fee for NASDAQ is \$150,000 while the NYSE initial listing fee is \$250,000.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #93*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: Organization of the Secondary Market*

94. Why was the Sarbanes-Oxley Act enacted?

The Sarbanes-Oxley Act was enacted after the accounting frauds and scandals of the 1990s.

Feedback: The Sarbanes-Oxley Act was enacted after the accounting frauds and scandals of the 1990s.

*AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Hirt - Chapter 02 #94*

*Learning Objective: 02-01 Understand the functions of financial markets.
Topic: The Market Environment*

95.

What are ECNs?

ECNs are electronic trading systems that automatically match buy and sell orders at specified prices.

Feedback: ECNs are electronic trading systems that automatically match buy and sell orders at specified prices.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 1 Easy

Hirt - Chapter 02 #95

Learning Objective: 02-01 Understand the functions of financial markets.

Topic: Electronic Communication Networks

Chapter 02 Security Markets **Summary**