

# Chapter 02 Test Bank - Static

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 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. Hedge fund managers, unlike mutual fund managers, do not receive fund-performance-related fees.  
True False
8. The markets for long-term debt and equity are called capital markets.  
True False
9. The stocks of major corporations trade in many markets throughout the world on a continuous or near-continuous basis.  
True False
10. The market for derivatives is also a source of financing for corporations.  
True False
11. During the Financial Crisis of 2007-2009, the U.S. government bailed out all firms in danger of failing.  
True False
12. In the United States, banks are the most important source of long-term financing for corporations.  
True False

13. A financial intermediary invests in financial assets rather than real assets.  
True False
14. Households hold directly three quarters of U.S. corporate equities.  
True False
15. The key to the banks' ability to make illiquid loans is their ability to pool liquid deposits from thousands of depositors.  
True False
16. From June 2001 to June 2006, house prices in the United States rose sharply.  
True False
17. For corporate bonds, the higher the credit quality of an issuer, the higher the interest rate.  
True False
18. The cost of capital is the interest rate paid on a loan from a bank or some other financial institution.  
True False
19. Like public companies, private companies can also use their stock price as a measure of performance.  
True False
20. 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
21. Once Apple Computer had become a public company, it was able to raise financing from venture capital companies  
True False
22. Insurance companies provide a mechanism for individuals to pool their risks.  
True False
23. Financial markets and intermediaries allow investors and businesses to reduce and reallocate risk.  
True False
24. The effects of the financial crisis of 2007-2009 were confined to the U.S. and domestic companies.  
True False
25. The cost of capital is the minimum acceptable rate of return for capital investment.  
True False

26. 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
27. The rates of return on investments outside the corporation set the minimum return for investment projects inside the corporation.
- True False
28. Financing for public corporations must flow through financial markets.
- True False
29. Financing for private companies must flow through financial intermediaries such as mutual funds.
- True False
30. Almost all foreign exchange trading occurs on the floors of the FOREX exchanges in New York and London.
- True False
31. Corporate financing comes ultimately from:
- A. savings by households and foreign investors.
  - B. cash generated from the firm's operations.
  - C. the financial markets and intermediaries.
  - D. the issue of shares in the firm.
32. A company can pay for its expansion in all the following ways *except*:
- A. by using the earnings generated from its sale of obsolete equipment.
  - B. by persuading a director's mother to make a personal loan to the company.
  - C. by purchasing bonds in the secondary market.
  - D. by plowing back part of its profits.
33. "Reinvestment" means:
- A. new investment in new operations.
  - B. additional investment in existing operations.
  - C. new investment by new shareholders.
  - D. the reinvestment of earnings into new projects.
34. Financing for public corporations flows through:
- A. the financial markets only.
  - B. financial intermediaries only.
  - C. derivatives markets.
  - D. the financial markets, financial intermediaries, or both.

35. When corporations need to raise funds through stock issues, they rely on the:
- A. primary market.
  - B. secondary market.
  - C. tertiary market.
  - D. centralized NASDAQ exchange.
36. A primary market would be utilized when:
- A. investors buy or sell existing securities.
  - B. shares of common stock are exchanged.
  - C. securities are initially issued.
  - D. a commission must be paid on the transaction.
37. The primary distinction between securities sold in the primary and secondary markets is:
- A. the riskiness of the securities.
  - B. the price of the securities.
  - C. whether the securities are new or already exist.
  - D. the profitability of the issuing corporation.
38. Which of the following are both a financial intermediary and a financial institution?
- A. Mutual funds
  - B. Pension funds
  - C. Insurance companies
  - D. Hedge funds
39. 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. IBM
  - B. The first investor
  - C. The second investor
  - D. IBM and both investors
40. Which of the following financial assets is *least* likely to have an active secondary market?
- A. Common stock of a large public firm
  - B. Bank loans made to smaller firms
  - C. Bonds of a major, multinational corporation
  - D. Debt issued by the U.S. Treasury
41. When Patricia sells her General Motors common stock at the same time that Brian purchases the same amount of GM stock, GM receives:
- A. the dollar value of the transaction.
  - B. the dollar amount of the transaction, less brokerage fees.
  - C. only the par value of the common stock.
  - D. nothing.

42. Which one of these is a money market security?
- A. Commercial paper
  - B. Common stock
  - C. 2-year bond
  - D. 20-year bond
43. 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. Public bond issue
  - B. IPO
  - C. Micro loan
  - D. Futures contract on a commodity
44. Corporate debt instruments are most commonly traded:
- A. on the NYSE.
  - B. on NASDAQ.
  - C. in the money market.
  - D. in the over-the-counter market.
45. A bond differs from a share of stock in that a bond:
- A. represents a claim on the firm.
  - B. has more risk.
  - C. has guaranteed returns.
  - D. has a maturity date.
46. Short-term financing transactions commonly occur in the:
- A. primary markets.
  - B. secondary markets.
  - C. capital markets.
  - D. money markets.
47. Long-term financing decisions commonly occur in the:
- A. option markets.
  - B. secondary markets.
  - C. capital markets.
  - D. money markets.
48. You can buy silver in the:
- A. capital markets.
  - B. foreign exchange markets.
  - C. commodities markets.
  - D. option markets.

49. Commodity and derivative markets:
- A. are additional sources of financing for corporate projects.
  - B. enable the financial manager to adjust a firm's exposure to various business risks.
  - C. are always over-the-counter markets.
  - D. deal only in foreign currencies.
50. Foreign currencies are traded:
- A. only by banks in New York and London.
  - B. over the counter.
  - C. on both the NYSE and NASDAQ.
  - D. on the Intercontinental Exchange.
51. Which one of the following statements is *not* characteristic of mutual funds?
- A. They are always considered to be financial institutions.
  - B. They raise money by selling shares to investors.
  - C. They pool the savings of many investors.
  - D. They offer professional management and portfolio diversification.
52. Which one of these correctly applies to mutual funds?
- A. Mutual funds are a costly means of achieving portfolio diversification.
  - B. Funds are required to limit their annual fees and expenses to less than 1 percent of the portfolio value.
  - C. You can generally buy additional shares in the fund at any time.
  - D. Shareholders sell their shares to other shareholders.
53. "Balanced" mutual funds:
- A. invest in both stocks and bonds.
  - B. spread their investments equally over a specified geographic area.
  - C. spread their investments equally over various industries.
  - D. charge a management fee that is proportionate to the investment return.
54. Who was responsible for the financial crisis of 2007-2009?
- A. The U.S. Federal Reserve, for its policy of easy money
  - B. The U.S. government, for pushing banks to expand credit for low-income housing
  - C. Bankers, who aggressively promoted and resold subprime mortgages
  - D. The U.S. Federal Reserve, the U.S. government, rating agencies, and bankers
55. Which one of the following funds provides a tax advantage to individual investors?
- A. Balanced funds
  - B. Pension funds
  - C. Bond funds
  - D. Funds that invest in foreign countries

56. A financial institution:
- A. is a kind of financial intermediary.
  - B. simply pools and invests savings.
  - C. raises financing by selling shares.
  - D. invests primarily in commodities.
57. Which type of financial institution generally does not accept deposits but does underwrite stock offerings?
- A. Insurance company
  - B. Mutual fund
  - C. Commercial bank
  - D. Investment bank
58. Which one of the following financial intermediaries has shown the greatest preference for investing in *long-term* financial assets?
- A. Commercial banks
  - B. Insurance companies
  - C. Finance companies
  - D. Savings banks
59. Which one of these may provide a financial return to some investors while not providing any financial return to other investors?
- A. Mutual funds
  - B. Pension funds
  - C. Insurance companies
  - D. Hedge fund
60. Insurance companies can usually cover the claims of policyholders because:
- A. the incidence of claims normally averages out across all policyholders.
  - B. they issue a very limited number of policies.
  - C. they are fully insured by the U.S. government.
  - D. their stockholders will cover any cash shortfalls encountered by the company.
61. Which of the following is *not* typically considered a function of financial intermediaries?
- A. Providing a payment mechanism
  - B. Investing in real assets
  - C. Accumulating funds from smaller investors
  - D. Spreading, or pooling risk among individuals
62. U.S. bonds and other debt securities are mostly held by:
- A. institutional investors.
  - B. households.
  - C. foreign investors.
  - D. state and local governments.

63. Approximately what percentage of U.S. corporate equities are held by households?
- A. 20%
  - B. 40%
  - C. 60%
  - D. 80%
64. Which of the following are major holders of corporate bonds?
- A. households.
  - B. banks.
  - C. insurance companies.
  - D. New York Stock Exchange.
65. Which of the following is not a function of financial markets?
- A. allow individuals to diversify their risk.
  - B. provide convenient ways to make large payments.
  - C. allow individuals to purchase a range of goods online.
  - D. provide funds to companies that wish to expand.
66. Which one of these transports income forward in time?
- A. Retirement savings
  - B. Car loan
  - C. Bank line of credit
  - D. Credit card purchase
67. Which one of these assists in shifting an individual's consumption forward in time?
- A. A bank line of credit
  - B. A bank savings account
  - C. A life insurance policy
  - D. A retirement savings plan
68. One reason suggesting that banks may be better than individuals at matching lenders to borrowers is that banks:
- A. can shift loan risk to their deposit customers.
  - B. are motivated by the potential for profit.
  - C. do not have any income tax liability.
  - D. have information to evaluate creditworthiness.
69. Which one of the following is *least* liquid?
- A. Foreign currency
  - B. U.S. Treasury bonds
  - C. Real estate
  - D. Bank deposit

70. Financial markets and intermediaries:
- A. channel savings to real investment.
  - B. increase risks for businesses.
  - C. generally reduce the liquidity of securities.
  - D. prevent the transportation of cash across time.
71. Which of the following functions does *not* require financial markets?
- A. Retention of cash by corporations
  - B. Provision of liquidity
  - C. Risk reduction by investment in diversified portfolios
  - D. Provision of pricing information
72. Liquidity is important to a mutual fund primarily because:
- A. a fund that is less liquid will attract more investors.
  - B. the fund's shareholders may want to redeem their shares at any time.
  - C. new investors may invest in the fund at any time.
  - D. the fund requires cash to pay its taxes.
73. Which one of the following is the biggest provider of payment mechanisms?
- A. Hedge funds
  - B. Banks
  - C. Mutual funds
  - D. Insurance companies
74. Which of the following actions does *not* help reduce risk?
- A. Extending the service warranty for your notebook
  - B. Converting your money market account to a mutual fund account
  - C. Contracting to sell your farm produce to the neighborhood grocery
  - D. Buying Japanese yen now when you plan to study in Japan next year
75. Insurance companies primarily reduce an individual's risk by:
- A. transporting that risk forward in time.
  - B. providing payment services.
  - C. spreading that risk across many individuals.
  - D. providing low-interest-rate loans.
76. Which of the following information is *not* provided by the financial markets?
- A. The price of six ounces of gold
  - B. The cost of borrowing \$500,000 for 5 years
  - C. Microsoft's earnings in 2013
  - D. The cost of one million yen in U.S. dollars

77. A capital investment that generates a 10% rate of return is worthwhile if:
- A. corporate bonds of similar risk offer 8% rates of return.
  - B. corporate bonds of similar risk offer 11% rates of return.
  - C. top-quality corporate bonds offer 10% rates of return.
  - D. the expected rate of return on the stock market is 12%.
78. The cost of capital:
- A. is the expected rate of return on a capital investment.
  - B. is an opportunity cost determined by the risk-free rate of return.
  - C. is the interest rate that the firm pays on a loan from a bank or insurance company.
  - D. for risky investments is normally higher than the firm's borrowing rate.
79. Excess cash held by a firm should be:
- A. reinvested by the firm in projects offering the highest rate of return.
  - B. reinvested by the firm in projects offering rates of return higher than the cost of capital.
  - C. reinvested by the firm in the financial markets.
  - D. distributed to bondholders in the form of extra coupon payments.
80. One contributing factor to the 2007-2009 financial crisis was the structuring of mortgage loans with:
- A. high initial payments, offset by significantly lower payments later.
  - B. low initial payments, offset by significantly higher payments later.
  - C. high initial payments, offset by high payments later.
  - D. very short maturities.
81. The opportunity cost of capital:
- A. is the interest rate that the firm pays on a loan from a financial institution.
  - B. is the maximum acceptable rate of return on a project.
  - C. is the minimum acceptable rate of return on a project.
  - D. is always less than 10%.
82. During the Financial Crisis of 2007-2009, the U.S. government bailed out all of the following firms *except*:
- A. AIG.
  - B. Fannie Mae.
  - C. Lehman Brothers.
  - D. Freddie Mac.
83. 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. Owners, venture capitalists, suppliers, public investors
  - B. Owners, suppliers, venture capitalists, public investors
  - C. Venture capitalists, owners, public investors, suppliers
  - D. Owners, public investors, venture capitalists, suppliers

84. Which one of these parties *cannot* invest in a hedge fund?
- A. Small retail investors
  - B. Pension funds
  - C. Insurance companies
  - D. Wealthy individuals
85. Which one of these enterprises generally acts as an underwriter for an initial public offering?
- A. Commercial bank
  - B. Government
  - C. Investment bank
  - D. Insurance company
86. Which of these institutions are not major investors in U.S. equities?
- A. mutual funds
  - B. banks
  - C. pension funds
  - D. hedge funds
87. Firms can often determine the price of any commodities they use in their production process by consulting the price quotes provided by:
- A. their investment bank.
  - B. the New York Mercantile Exchange.
  - C. the New York Stock Exchange.
  - D. the Standard & Poor's market indexes.
88. How is the relationship between a bond's credit rating and its interest rate best defined?
- A. Inverse relationship
  - B. Direct relationship
  - C. Unrelated
  - D. Logarithmic
89. The financial crisis of 2007-2009 contributed to the largest sovereign default in history by which one of these countries?
- A. Italy
  - B. Portugal
  - C. Ireland
  - D. Greece
90. 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. Decrease in their exchange rates
  - B. Investments in U.S. subprime mortgages
  - C. Interest rate spikes
  - D. Currency controls

91. 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. Government actions to raise interest rates
  - B. Investor speculation
  - C. Risk-averse investor attitudes
  - D. Government actions to lower government debt
92. Which one of these is generally a key difference between U.S. and foreign commercial banks?
- A. Pooling and investing savings
  - B. Accepting investor deposits
  - C. Providing debt financing to corporations
  - D. Making equity investments in corporations

# Chapter 02 Test Bank - Static **Key**

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

**FALSE**

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 1 Easy  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions*

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

**TRUE**

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Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 1 Easy  
Gradable: automatic  
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.  
Topic: Financial institution functions*

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

**TRUE**

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
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Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.  
Topic: Financial institution functions*

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

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Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.  
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5. Previously issued securities are traded among investors in the secondary markets.

**TRUE**

*AACSB: Communication  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy*

*Gradable: automatic*  
*Learning Objective: 02-03 Explain the functions of financial markets and institutions.*  
*Topic: Primary and secondary markets*

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

**FALSE**

*AACSB: Communication*  
*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-03 Explain the functions of financial markets and institutions.*  
*Topic: Initial public offerings*

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

**FALSE**

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.*  
*Topic: Types of financial institutions*

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

**TRUE**

*AACSB: Communication*  
*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 1 Easy*  
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*Learning Objective: 02-03 Explain the functions of financial markets and institutions.*  
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9. The stocks of major corporations trade in many markets throughout the world on a continuous or near-continuous basis.

**TRUE**

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*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 1 Easy*  
*Gradable: automatic*  
*Learning Objective: 02-03 Explain the functions of financial markets and institutions.*  
*Topic: Stock trading*

10. The market for derivatives is also a source of financing for corporations.

**FALSE**

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-03 Explain the functions of financial markets and institutions.*  
*Topic: Derivatives and other securities*

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

**FALSE**

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Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.  
Topic: Financial distress

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

**FALSE**

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Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.  
Topic: Financial institution functions

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

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

14. Households hold directly three quarters of U.S. corporate equities.

**FALSE**

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Difficulty: 1 Easy  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Raising capital

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

**TRUE**

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

16. From June 2001 to June 2006, house prices in the United States rose sharply.

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

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Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Bond ratings and credit risk*

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

**FALSE**

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Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Cost of capital-general*

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

**FALSE**

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Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Stock market prices and reporting*

20. 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**

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Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Expected (required) return*

21. Once Apple Computer had become a public company, it was able to raise financing from venture capital companies

**FALSE**

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Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.  
Topic: Raising capital*

22. Insurance companies provide a mechanism for individuals to pool their risks.

**TRUE**

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Difficulty: 2 Medium  
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Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions*

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

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Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions*

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

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Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.  
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25. The cost of capital is the minimum acceptable rate of return for capital investment.

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Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Expected (required) return*

26. 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).

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Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.  
Topic: Financial distress

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

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Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Expected (required) return

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

**FALSE**

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Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
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29. Financing for private companies must flow through financial intermediaries such as mutual funds.

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Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic

Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

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

**FALSE**

AACSB: Communication  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 2 Medium  
Gradable: automatic

Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Foreign exchange markets

31. Corporate financing comes ultimately from:

- A. savings by households and foreign investors.
- B. cash generated from the firm's operations.
- C. the financial markets and intermediaries.
- D. the issue of shares in the firm.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 1 Easy  
Gradable: automatic  
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.  
Topic: Financial institution functions

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

- A. by using the earnings generated from its sale of obsolete equipment.
- B. by persuading a director's mother to make a personal loan to the company.
- C. by purchasing bonds in the secondary market.
- D. by plowing back part of its profits.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.  
Topic: Raising capital

33. "Reinvestment" means:

- A. new investment in new operations.
- B. additional investment in existing operations.
- C. new investment by new shareholders.
- D. the reinvestment of earnings into new projects.

AACSB: Communication  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.  
Topic: Raising capital

34. Financing for public corporations flows through:

- A. the financial markets only.
- B. financial intermediaries only.
- C. derivatives markets.
- D. the financial markets, financial intermediaries, or both.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 1 Easy  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

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

- A. primary market.
- B. secondary market.
- C. tertiary market.
- D. centralized NASDAQ exchange.

*AACSB: Communication  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 2 Medium  
Gradable: automatic*

*Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Primary and secondary markets*

36. A primary market would be utilized when:

- A. investors buy or sell existing securities.
- B. shares of common stock are exchanged.
- C. securities are initially issued.
- D. a commission must be paid on the transaction.

*AACSB: Communication  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Gradable: automatic*

*Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Primary and secondary markets*

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

- A. the riskiness of the securities.
- B. the price of the securities.
- C. whether the securities are new or already exist.
- D. the profitability of the issuing corporation.

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic*

*Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Primary and secondary markets*

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

- A. Mutual funds
- B. Pension funds
- C. Insurance companies
- D. Hedge funds

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic*

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

39. 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. IBM
  - B.** The first investor
  - C. The second investor
  - D. IBM and both investors

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Gradable: automatic

Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Stock returns and yields

40. Which of the following financial assets is *least* likely to have an active secondary market?
- A. Common stock of a large public firm
  - B.** Bank loans made to smaller firms
  - C. Bonds of a major, multinational corporation
  - D. Debt issued by the U.S. Treasury

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 3 Hard  
Gradable: automatic

Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Primary and secondary markets

41. When Patricia sells her General Motors common stock at the same time that Brian purchases the same amount of GM stock, GM receives:
- A. the dollar value of the transaction.
  - B. the dollar amount of the transaction, less brokerage fees.
  - C. only the par value of the common stock.
  - D.** nothing.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic

Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Primary and secondary markets

42. Which one of these is a money market security?
- A.** Commercial paper
  - B. Common stock
  - C. 2-year bond
  - D. 20-year bond

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation

*Blooms: Apply*

*Difficulty: 2 Medium*

*Gradable: automatic*

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

*Topic: Money and capital markets*

43. 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. Public bond issue
- B. IPO
- C. Micro loan**
- D. Futures contract on a commodity

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Gradable: automatic*

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

*Topic: Debt*

44. Corporate debt instruments are most commonly traded:

- A. on the NYSE.
- B. on NASDAQ.
- C. in the money market.
- D. in the over-the-counter market.**

*AACSB: Communication*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Gradable: automatic*

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

*Topic: Primary and secondary markets*

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

- A. represents a claim on the firm.
- B. has more risk.
- C. has guaranteed returns.
- D. has a maturity date.**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Gradable: automatic*

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

*Topic: Bond features*

46. Short-term financing transactions commonly occur in the:

- A. primary markets.
- B. secondary markets.
- C. capital markets.
- D.** money markets.

AACSB: Communication  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Money and capital markets

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

- A. option markets.
- B. secondary markets.
- C.** capital markets.
- D. money markets.

AACSB: Communication  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Money and capital markets

48. You can buy silver in the:

- A. capital markets.
- B. foreign exchange markets.
- C.** commodities markets.
- D. option markets.

AACSB: Communication  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Money and capital markets

49. Commodity and derivative markets:

- A. are additional sources of financing for corporate projects.
- B.** enable the financial manager to adjust a firm's exposure to various business risks.
- C. are always over-the-counter markets.
- D. deal only in foreign currencies.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 3 Hard  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Derivatives and other securities

50. Foreign currencies are traded:
- A. only by banks in New York and London.
  - B.** over the counter.
  - C. on both the NYSE and NASDAQ.
  - D. on the Intercontinental Exchange.

AACSB: Communication  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Foreign exchange markets

51. Which one of the following statements is *not* characteristic of mutual funds?
- A.** They are always considered to be financial institutions.
  - B. They raise money by selling shares to investors.
  - C. They pool the savings of many investors.
  - D. They offer professional management and portfolio diversification.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.  
Topic: Types of financial institutions

52. Which one of these correctly applies to mutual funds?
- A. Mutual funds are a costly means of achieving portfolio diversification.
  - B. Funds are required to limit their annual fees and expenses to less than 1 percent of the portfolio value.
  - C.** You can generally buy additional shares in the fund at any time.
  - D. Shareholders sell their shares to other shareholders.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.  
Topic: Types of financial institutions

53. "Balanced" mutual funds:
- A.** invest in both stocks and bonds.
  - B. spread their investments equally over a specified geographic area.
  - C. spread their investments equally over various industries.
  - D. charge a management fee that is proportionate to the investment return.

AACSB: Communication  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.

54. Who was responsible for the financial crisis of 2007-2009?
- A. The U.S. Federal Reserve, for its policy of easy money
  - B. The U.S. government, for pushing banks to expand credit for low-income housing
  - C. Bankers, who aggressively promoted and resold subprime mortgages
  - D.** The U.S. Federal Reserve, the U.S. government, rating agencies, and bankers

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.  
Topic: Financial distress

55. Which one of the following funds provides a tax advantage to individual investors?
- A. Balanced funds
  - B.** Pension funds
  - C. Bond funds
  - D. Funds that invest in foreign countries

AACSB: Communication  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.  
Topic: Types of financial institutions

56. A financial institution:
- A.** is a kind of financial intermediary.
  - B. simply pools and invests savings.
  - C. raises financing by selling shares.
  - D. invests primarily in commodities.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 3 Hard  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institutions

57. Which type of financial institution generally does not accept deposits but does underwrite stock offerings?
- A. Insurance company
  - B. Mutual fund
  - C. Commercial bank
  - D.** Investment bank

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic

58. Which one of the following financial intermediaries has shown the greatest preference for investing in *long-term* financial assets?
- A. Commercial banks
  - B. Insurance companies**
  - C. Finance companies
  - D. Savings banks

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 2 Medium*  
*Gradable: automatic*

*Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.*  
*Topic: Financial institution functions*

59. Which one of these may provide a financial return to some investors while not providing any financial return to other investors?
- A. Mutual funds
  - B. Pension funds
  - C. Insurance companies**
  - D. Hedge fund

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 1 Easy*  
*Gradable: automatic*

*Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.*  
*Topic: Types of financial institutions*

60. Insurance companies can usually cover the claims of policyholders because:
- A. the incidence of claims normally averages out across all policyholders.**
  - B. they issue a very limited number of policies.
  - C. they are fully insured by the U.S. government.
  - D. their stockholders will cover any cash shortfalls encountered by the company.

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 2 Medium*  
*Gradable: automatic*

*Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.*  
*Topic: Types of financial institutions*

61. Which of the following is *not* typically considered a function of financial intermediaries?
- A. Providing a payment mechanism
  - B. Investing in real assets**
  - C. Accumulating funds from smaller investors
  - D. Spreading, or pooling risk among individuals

*AACSB: Communication*

*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.*  
*Topic: Financial institution functions*

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

- A.** institutional investors.
- B. households.
- C. foreign investors.
- D. state and local governments.

*AACSB: Communication*  
*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.*  
*Topic: Raising capital*

63. Approximately what percentage of U.S. corporate equities are held by households?

- A. 20%
- B.** 40%
- C. 60%
- D. 80%

*AACSB: Communication*  
*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-03 Explain the functions of financial markets and institutions.*  
*Topic: Raising capital*

64. Which of the following are major holders of corporate bonds?

- A. households.
- B. banks.
- C.** insurance companies.
- D. New York Stock Exchange.

*AACSB: Communication*  
*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-03 Explain the functions of financial markets and institutions.*  
*Topic: Raising capital*

65. Which of the following is not a function of financial markets?

- A. allow individuals to diversify their risk.
- B. provide convenient ways to make large payments.
- C.** allow individuals to purchase a range of goods online.
- D. provide funds to companies that wish to expand.

AACSB: Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

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

- A.** Retirement savings
- B. Car loan
- C. Bank line of credit
- D. Credit card purchase

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

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

- A.** A bank line of credit
- B. A bank savings account
- C. A life insurance policy
- D. A retirement savings plan

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

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

- A. can shift loan risk to their deposit customers.
- B. are motivated by the potential for profit.
- C. do not have any income tax liability.
- D.** have information to evaluate creditworthiness.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

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

- A. Foreign currency
- B. U.S. Treasury bonds
- C. Real estate**
- D. Bank deposit

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic

Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

70. Financial markets and intermediaries:

- A. channel savings to real investment.**
- B. increase risks for businesses.
- C. generally reduce the liquidity of securities.
- D. prevent the transportation of cash across time.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 1 Easy  
Gradable: automatic

Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

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

- A. Retention of cash by corporations**
- B. Provision of liquidity
- C. Risk reduction by investment in diversified portfolios
- D. Provision of pricing information

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 3 Hard  
Gradable: automatic

Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

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

- A. a fund that is less liquid will attract more investors.
- B. the fund's shareholders may want to redeem their shares at any time.**
- C. new investors may invest in the fund at any time.
- D. the fund requires cash to pay its taxes.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 3 Hard  
Gradable: automatic

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

73. Which one of the following is the biggest provider of payment mechanisms?
- A. Hedge funds
  - B. Banks**
  - C. Mutual funds
  - D. Insurance companies

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

74. Which of the following actions does *not* help reduce risk?
- A. Extending the service warranty for your notebook
  - B. Converting your money market account to a mutual fund account**
  - C. Contracting to sell your farm produce to the neighborhood grocery
  - D. Buying Japanese yen now when you plan to study in Japan next year

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Financial institution functions

75. Insurance companies primarily reduce an individual's risk by:
- A. transporting that risk forward in time.
  - B. providing payment services.
  - C. spreading that risk across many individuals.**
  - D. providing low-interest-rate loans.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic  
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.  
Topic: Financial institution functions

76. Which of the following information is *not* provided by the financial markets?
- A. The price of six ounces of gold
  - B. The cost of borrowing \$500,000 for 5 years
  - C. Microsoft's earnings in 2013**
  - D. The cost of one million yen in U.S. dollars

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Gradable: automatic

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

- A.** corporate bonds of similar risk offer 8% rates of return.
- B. corporate bonds of similar risk offer 11% rates of return.
- C. top-quality corporate bonds offer 10% rates of return.
- D. the expected rate of return on the stock market is 12%.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 1 Easy  
Gradable: automatic

Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Expected (required) return

78. The cost of capital:

- A. is the expected rate of return on a capital investment.
- B. is an opportunity cost determined by the risk-free rate of return.
- C. is the interest rate that the firm pays on a loan from a bank or insurance company.
- D.** for risky investments is normally higher than the firm's borrowing rate.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 3 Hard  
Gradable: automatic

Learning Objective: 02-03 Explain the functions of financial markets and institutions.  
Topic: Cost of capital-general

79. Excess cash held by a firm should be:

- A. reinvested by the firm in projects offering the highest rate of return.
- B.** reinvested by the firm in projects offering rates of return higher than the cost of capital.
- C. reinvested by the firm in the financial markets.
- D. distributed to bondholders in the form of extra coupon payments.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Gradable: automatic

Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.  
Topic: Goal of financial management

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

- A. high initial payments, offset by significantly lower payments later.
- B.** low initial payments, offset by significantly higher payments later.
- C. high initial payments, offset by high payments later.
- D. very short maturities.

AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

81. The opportunity cost of capital:
- A. is the interest rate that the firm pays on a loan from a financial institution.
  - B. is the maximum acceptable rate of return on a project.
  - C.** is the minimum acceptable rate of return on a project.
  - D. is always less than 10%.

*AACSB: Communication*  
*Accessibility: Keyboard Navigation*  
*Blooms: Remember*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-03 Explain the functions of financial markets and institutions.*  
*Topic: Expected (required) return*

82. During the Financial Crisis of 2007-2009, the U.S. government bailed out all of the following firms *except*:
- A. AIG.
  - B. Fannie Mae.
  - C.** Lehman Brothers.
  - D. Freddie Mac.

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.*  
*Topic: Financial distress*

83. 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. Owners, venture capitalists, suppliers, public investors
  - B.** Owners, suppliers, venture capitalists, public investors
  - C. Venture capitalists, owners, public investors, suppliers
  - D. Owners, public investors, venture capitalists, suppliers

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Apply*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.*  
*Topic: Raising capital*

84. Which one of these parties *cannot* invest in a hedge fund?
- A.** Small retail investors
  - B. Pension funds
  - C. Insurance companies
  - D. Wealthy individuals

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Gradable: automatic*

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

*Topic: Hedging*

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

- A. Commercial bank
- B. Government
- C. Investment bank**
- D. Insurance company

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Gradable: automatic*

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

*Topic: Underwriting*

86. Which of these institutions are not major investors in U.S. equities?

- A. mutual funds
- B. banks**
- C. pension funds
- D. hedge funds

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Gradable: automatic*

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

*Topic: Raising capital*

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

- A. their investment bank.
- B. the New York Mercantile Exchange.**
- C. the New York Stock Exchange.
- D. the Standard & Poor's market indexes.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Gradable: automatic*

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

*Topic: Financial institution functions*

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

- A.** Inverse relationship
- B. Direct relationship
- C. Unrelated
- D. Logarithmic

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-03 Explain the functions of financial markets and institutions.*  
*Topic: Bond ratings and credit risk*

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

- A. Italy
- B. Portugal
- C. Ireland
- D.** Greece

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Apply*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.*  
*Topic: Financial distress*

90. 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. Decrease in their exchange rates
- B.** Investments in U.S. subprime mortgages
- C. Interest rate spikes
- D. Currency controls

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Apply*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.*  
*Topic: Financial distress*

91. 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. Government actions to raise interest rates
- B. Investor speculation
- C. Risk-adverse investor attitudes
- D.** Government actions to lower government debt

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 2 Medium*

92. Which one of these is generally a key difference between U.S. and foreign commercial banks?
- A. Pooling and investing savings
  - B. Accepting investor deposits
  - C. Providing debt financing to corporations
  - D. Making equity investments in corporations**

*AACSB: Reflective Thinking*  
*Accessibility: Keyboard Navigation*  
*Blooms: Apply*  
*Difficulty: 2 Medium*  
*Gradable: automatic*  
*Learning Objective: 02-03 Explain the functions of financial markets and institutions.*  
*Topic: Financial institution functions*

# Chapter 02 Test Bank - Static Summary

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AACSB: Thinking	1
AACSB: Communication	21
AACSB: Reflective Thinking	70
Accessibility: Keyboard Navigation	92
Blooms: Apply	16
Blooms: Remember	24
Blooms: Understand	52
Difficulty: 1 Easy	19
Difficulty: 2 Medium	67
Difficulty: 3 Hard	6
Gradable: automatic	92
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.	10
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.	16
Learning Objective: 02-03 Explain the functions of financial markets and institutions.	56
Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.	10
Topic: Bond features	1
Topic: Bond ratings and credit risk	2
Topic: Capital markets	1
Topic: Cost of capital-general	2
Topic: Debt	1
Topic: Derivatives and other securities	2
Topic: Expected (required) return	5
Topic: Financial distress	10
Topic: Financial institution functions	28
Topic: Financial institutions	3
Topic: Foreign exchange markets	2
Topic: Goal of financial management	1
Topic: Hedging	1
Topic: Initial public offerings	1
Topic: Money and capital markets	4
Topic: Primary and secondary markets	7
Topic: Raising capital	9
Topic: Stock market prices and reporting	1
Topic: Stock returns and yields	1
Topic: Stock trading	1
Topic: Types of financial institutions	8
Topic: Underwriting	1