Essentials of Investments 12th edition Bodie Test Bank

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Essentials of Investments 12th Edition by Bodie Ch01

Answers are located in the second half of this document.

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

1) Financial assets represent _____ of total assets of U.S. households in 2019.

A) about 70%
B) over 90%
C) under 10%
D) about 30%

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Accessibility : Screen Reader Compatible
Gradable : automatic

2) Real assets in the economy include all but which one of the following?

A) Land
B) Buildings
C) Consumer durables
D) Common stock

Question Details
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3) In 2019, net worth represented _____ of the liabilities and net worth of commercial banks.

A) about 51%
B) about 91%
C) about 11%
D) about 31%

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : Financial Intermediaries
Accessibility : Screen Reader Compatible
Gradable : automatic

4) According to the *Flow of Funds Accounts of the United States,* the largest single asset of U.S. households is _____.

A) mutual fund shares
B) real estate
C) pension reserves
D) corporate equity

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
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Difficulty : 2 Medium
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5) According to the *Flow of Funds Accounts of the United States,* the largest liability of U.S. households is _____.

A) mortgages
B) consumer credit
C) bank loans
D) gambling debts

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Learning Objective : 01-02 Distinguish between real assets and financial assets.
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Topic : Real Assets versus Financial Assets
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Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

6) _____ is *not* a derivative security.

A) A share of common stock
B) A call option
C) A futures contract
D) A put option

Question Details
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Learning Objective : 01-02 Distinguish between real assets and financial assets.
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7) According to the *Flow of Funds Accounts of the United States,* the largest financial asset of U.S. households is _____.

A) mutual fund shares
B) corporate equity
C) pension reserves
D) deposits

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8) Active trading in markets and competition among securities analysts helps ensure that:
1. Security prices approach informational efficiency.
2. Riskier securities are priced to offer higher potential returns.
3. Investors are unlikely to be able to consistently find under- or overvalued securities.

A) 1 only
B) 1 and 2 only
C) 2 and 3 only
D) 1, 2, and 3

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Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
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Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

9) The material wealth of society is determined by the economy's _____, which is a function of the economy's _____.

A) investment bankers; financial assets
B) investment bankers; real assets
C) productive capacity; financial assets
D) productive capacity; real assets

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Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

10) Which of the following is *not* a money market security?

A) U.S. Treasury bill
B) 6-month maturity certificate of deposit
C) common stock
D) mortgage backed security

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Question Details
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Difficulty : 2 Medium
Topic : Financial Assets
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Gradable : automatic

11) _____ assets generate net income to the economy, and _____ assets define allocation of income among investors.

A) Financial; financial
B) Financial; real
C) Real; financial
D) Real; real

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Gradable : automatic

12) Which of the following are financial assets?
1. Debt securities
2. Equity securities
3. Derivative securities

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A) 1 only
B) 1 and 2 only
C) 2 and 3 only
D) 1, 2, and 3

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Gradable : automatic

13) _____ are examples of financial intermediaries.

A) Commercial banks
B) Insurance companies
C) Investment companies
D) All of the choices are correct.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
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Topic : Financial Intermediaries
Learning Objective : 01-05 Identify different types of financial markets and the major participants i
Accessibility : Screen Reader Compatible
Gradable : automatic

14) *Asset allocation* refers to _____.

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A) the allocation of the investment portfolio across broad asset classes
B) the analysis of the value of securities
C) the choice of specific assets within each asset class
D) None of the choices are correct.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
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Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

15) Which one of the following best describes the purpose of derivatives markets?

A) Transferring risk from one party to another.
B) Investing for a short time period to earn a small rate of return.
C) Investing for retirement
D) Earning interest income

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

16) *Security selection* refers to the _____.

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A) allocation of the investment portfolio across broad asset classes
B) analysis of the broad asset classes
C) choice of specific securities within each asset class
D) top-down method of investing

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
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Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

17) Which of the following is an example of an agency problem?

A) Managers engage in empire building.
B) Managers protect their jobs by avoiding risky projects.
C) Managers overconsume luxuries such as corporate jets.
D) All of the options are examples of agency problems.

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Difficulty : 1 Easy
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18) _____ is (are) a mechanism for mitigating potential agency problems.

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A) Tying income of managers to success of the firm
B) Directors defending top management
C) Antitakeover strategies
D) All of the choices are correct.

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AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
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Gradable : automatic

19) _____ is (are) real assets.

A) Bonds
B) Production equipment
C) Stocks
D) Life insurance

Question Details
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Gradable : automatic

20) _____ portfolio construction starts with selecting attractively priced securities.

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A) Bottom-up
B) Top-down
C) Upside-down
D) Side-to-side

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

21) In a market economy, capital resources are primarily allocated by _____.

A) governments
B) corporation CEOs
C) financial markets
D) investment bankers

Question Details
Difficulty : 1 Easy
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Type : Static
Bloom's : Remember
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Gradable : automatic

22) _____ represents an ownership share in a corporation.

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A) A call option
B) Common stock
C) A fixed-income security
D) Preferred stock

Question Details
Difficulty : 1 Easy
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Accessibility : Keyboard Navigation
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Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Assets
Accessibility : Screen Reader Compatible
Gradable : automatic

23) The value of a derivative security _____.

A) depends on the value of another related security
B) affects the value of a related security
C) is unrelated to the value of a related security
D) can be integrated only by calculus professors

Question Details
Difficulty : 1 Easy
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Topic : Financial Assets
Accessibility : Screen Reader Compatible
Gradable : automatic

24) Commodity and derivative markets allow firms to adjust their _____.

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A) management styles
B) focus from their main line of business to their investment portfolios
C) ways of doing business so that they'll always have positive returns
D) exposure to various business risks

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

25) _____ portfolio management calls for holding diversified portfolios without spending effort or resources attempting to improve investment performance through security analysis.

A) Active
B) Momentum
C) Passive
D) Market-timing

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : Efficient Markets
Accessibility : Screen Reader Compatible
Gradable : automatic

26) Financial markets allow for all but which one of the following?

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A) Shift consumption through time from higher-income periods to lower.
B) Price securities according to their riskiness.
C) Channel funds from lenders of funds to borrowers of funds.
D) Allow most participants to routinely earn high returns with low risk.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

27) Financial intermediaries exist because small investors cannot efficiently _____.

A) diversify their portfolios
B) gather information
C) assess and monitor the credit risk of borrowers
D) All of the choices are correct.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Intermediaries
Learning Objective : 01-05 Identify different types of financial markets and the major participants i
Accessibility : Screen Reader Compatible
Gradable : automatic

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28) Methods of encouraging managers to act in shareholders' best interest include:
1. Threat of takeover.
2. Proxy fights for control of the board of directors.
3. Tying managers' compensation to stock price performance.

A) 1 only
B) 1 and 2 only
C) 2 and 3 only
D) 1, 2, and 3

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

29) Firms that specialize in helping companies raise capital by selling securities to the public are called _____.

A) pension funds
B) investment banks
C) savings banks
D) REITs

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Intermediaries
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Accessibility : Screen Reader Compatible
Gradable : automatic

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30) In securities markets, there should be a risk-return trade-off with higher-risk assets having _____ expected returns than lower-risk assets.

A) higher
B) lower
C) the same
D) The answer cannot be determined from the information given.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

31) When the market is more optimistic about a firm, its share price will _____; as a result, it will need to issue _____ shares to raise funds that are needed.

A) rise; fewer
B) fall; fewer
C) rise; more
D) fall; more

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
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Gradable : automatic

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32) *Security selection* refers to _____.

A) choosing specific securities within each asset class
B) deciding how much to invest in each asset class
C) deciding how much to invest in the market portfolio versus the riskless asset
D) deciding how much to hedge

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

33) An example of a derivative security is _____.

A) a common share of General Motors
B) a call option on Intel stock
C) a Ford bond
D) a U.S. Treasury bond

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
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34) _____ portfolio construction starts with asset allocation.

A) Bottom-up
B) Top-down
C) Upside-down
D) Side-to-side

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

35) Which one of the following firms falsely claimed to have a $4.8 billion bank account, eventually resulting in the firm's bankruptcy?

A) WorldCom
B) Enron
C) Parmalat
D) Global Crossing

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
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36) Debt securities promise:
1. A fixed stream of income.
2. A stream of income that is determined according to a specific formula.
3. A share in the profits of the issuing entity.

A) 1 only
B) 1 or 2 only
C) 1 and 3 only
D) 2 or 3 only

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Gradable : automatic

37) The Sarbanes-Oxley Act tightened corporate governance rules by requiring all but which one of the following?

A) Required that corporations have more independent directors.
B) Required that the CFO personally vouch for the corporation's financial statements.
C) Required that firms could no longer employ investment bankers to sell securities to the public.
D) Required the creation of a new board to oversee the auditing of public companies.

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Gradable : automatic

38) The success of common stock investments depends on the success of _____.

A) derivative securities
B) fixed-income securities
C) the firm and its real assets
D) government methods of allocating capital

Question Details
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Gradable : automatic

39) The historical average rate of return on large company stocks since 1926 has been _____.

A) about 5%
B) about 8%
C) about 12%
D) about 20%

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Question Details
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Gradable : automatic

40) The average rate of return on U.S. Treasury bills since 1926 was _____.

A) less than 1%
B) less than 4%
C) over 4%
D) over 12%

Question Details
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AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
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Gradable : automatic

41) An example of a real asset is:
1. A college education
2. Customer goodwill
3. A patent

A) 1 only
B) 2 only
C) 1 and 3 only
D) 1, 2, and 3

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Gradable : automatic

42) The 2002 law designed to improve corporate governance is titled the _____.

A) Pension Reform Act
B) ERISA
C) Financial Services Modernization Act
D) Sarbanes-Oxley Act

Question Details
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Topic : Financial Markets and the Economy
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Gradable : automatic

43) Which of the following is *not* a financial intermediary?

A) A mutual fund
B) An insurance company
C) A real estate brokerage firm
D) A credit union

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44) The combined liabilities of American households in 2019 represent approximately _____ of combined assets.

A) 11%
B) 13%
C) 25%
D) 33%

Question Details
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45) In 2019 real assets represented approximately _____ of the total asset holdings of American households.

A) 29%
B) 42%
C) 48%
D) 55%

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Difficulty : 2 Medium
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46) In 2019, mortgages represented approximately _____ of total liabilities and net worth of American households.

A) 9%
B) 14%
C) 28%
D) 42%

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47) Liabilities equal approximately _____ of total assets for nonfinancial U.S. businesses in 2019.

A) 14%
B) 24%
C) 44%
D) 56%

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48) Which of the following is *not* an example of a financial intermediary?

A) Goldman Sachs
B) Allstate Insurance
C) First Interstate Bank
D) IBM

Question Details
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49) Real assets represent about _____ of total assets for commercial banks and savings institutions in 2019.

A) 1%
B) 15%
C) 25%
D) 40%

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50) Money market securities are characterized by:
1. Maturity less than 1 year
2. Safety of the principal investment
3. Low rates of return

A) 1 only
B) 1 and 2 only
C) 1 and 3 only
D) 1, 2, and 3

Question Details
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51) After much investigation, an investor finds that Intel stock is currently underpriced. This is an example of _____.

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A) asset allocation
B) security analysis
C) top-down portfolio management
D) passive management

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52) After considering current market conditions, an investor decides to place 60% of her funds in equities and the rest in bonds. This is an example of _____.

A) asset allocation
B) security analysis
C) top-down portfolio management
D) passive management

Question Details
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53) Suppose an investor is considering one of two investments that are identical in all respects except for risk. If the investor anticipates a fair return for the risk of the security he invests in, he can expect to _____.

A) earn no more than the Treasury-bill rate on either security
B) pay less for the security that has higher risk
C) pay less for the security that has lower risk
D) earn more if interest rates are lower

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Gradable : automatic

54) The efficient market hypothesis suggests that _____.

A) active portfolio management strategies are the most appropriate investment strategies
B) passive portfolio management strategies are the most appropriate investment strategies
C) either active or passive strategies may be appropriate, depending on the expected direction of the market
D) a bottom-up approach is the most appropriate investment strategy

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55) In a perfectly efficient market the best investment strategy is probably _____.

A) an active strategy
B) a passive strategy
C) asset allocation
D) market timing

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

56) Market signals will help to allocate capital efficiently only if investors are acting _____.

A) on the basis of their individual hunches
B) as directed by financial experts
C) as dominant forces in the economy
D) on accurate information

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

Essentials of Investments 12th edition Bodie Test Bank

57) Which of the following is (are) true about hedge funds?
1. They are open to institutional investors.
2. They are open to wealthy individuals.
3. They are more likely than mutual funds to pursue simple strategies.

A) 1 and 2 only
B) 1 and 3 only
C) 2 and 3 only
D) 1, 2, and 3

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

58) Venture capital is _____.

A) frequently used to expand the businesses of well-established companies
B) supplied by venture capital funds and individuals to start-up companies
C) illegal under current U.S. laws
D) most frequently issued with the help of investment bankers

Essentials of Investments 12th edition Bodie Test Bank

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

59) Individuals may find it more advantageous to purchase claims from a financial intermediary rather than directly purchasing claims in capital markets because:
1. Intermediaries are better diversified than most individuals.
2. Intermediaries can exploit economies of scale in investing that individual investors cannot.
3. Intermediated investments usually offer higher rates of return than direct capital market claims.

A) 1 only
B) 1 and 2 only
C) 2 and 3 only
D) 1, 2, and 3

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : Financial Intermediaries
Accessibility : Screen Reader Compatible
Gradable : automatic

60) Surf City Software Company develops new surf forecasting software. It sells the software to Microsoft in exchange for 1,000 shares of Microsoft common stock. Surf City Software has exchanged a _____ asset for a _____ asset in this transaction.

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A) real; real
B) financial; financial
C) real; financial
D) financial; real

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

61) Stone Harbor Products takes out a bank loan. It receives $100,000 and signs a promissory note to pay back the loan over 5 years. In this transaction, _____.

A) a new financial asset was created
B) a financial asset was traded for a real asset
C) a financial asset was destroyed
D) a real asset was created

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

62) Which of the following firms was *not* engaged in a major accounting scandal between 2000 and 2005?

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A) General Electric
B) Parmalat
C) Enron
D) WorldCom

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

63) Accounting scandals can often be attributed to a concept in the study of finance known as the _____.

A) agency problem
B) risk-return trade-off
C) allocation of risk
D) securitization

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

64) An intermediary that pools and manages funds for many investors is called _____.

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A) an investment company
B) an insurance company
C) an investment banker
D) a commercial bank

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Intermediaries
Accessibility : Screen Reader Compatible
Gradable : automatic

65) Financial institutions that specialize in assisting corporations in primary market transactions are called _____.

A) mutual funds
B) investment bankers
C) pension funds
D) globalization specialists

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Intermediaries
Accessibility : Screen Reader Compatible
Gradable : automatic

66) When a pass-through mortgage security is issued, what does the issuing agency expect to receive?

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A) The amount of the original loan plus a servicing fee.
B) The principal and interest that are paid by the homeowner.
C) The principal and interest that are paid by the homeowner, minus a servicing fee.
D) The interest paid by the homeowner, plus a servicing fee.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

67) In 2008 the largest corporate bankruptcy in U.S. history involved the investment banking firm of _____.

A) Goldman Sachs
B) Lehman Brothers
C) Morgan Stanley
D) Merrill Lynch

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

68) The inability of shareholders to influence the decisions of managers, despite overwhelming shareholder support, is a breakdown in what process or mechanism?

Essentials of Investments 12th edition Bodie Test Bank

A) Auditing
B) Public finance
C) Corporate governance
D) Public reporting

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

69) Real assets are _____.

A) assets used to produce goods and services
B) always the same as financial assets
C) always equal to liabilities
D) claims on a company's income

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Accessibility : Screen Reader Compatible
Gradable : automatic

70) A major cause of the mortgage market meltdown in 2007 and 2008 was linked to _____.

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A) private equity investments
B) securitization
C) negative analyst recommendations
D) online trading

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

71) In recent years the greatest dollar amount of securitization occurred for which type of loan?

A) Home mortgages
B) Credit card debt
C) Automobile loans
D) Equipment leasing

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

72) Which of the following is (are) true about nonconforming mortgage loans?

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A) They are also known as *subprime loans.*
B) They have higher default risk than conforming loans.
C) They were able to be offered without due diligence.
D) All of the choices are correct.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

73) The systemic risk that led to the financial crisis of 2008 was increased by _____.

A) collateralized debt obligations
B) subprime mortgages
C) credit default swaps
D) All of the choices are correct.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

74) An investment adviser has decided to purchase gold, real estate, stocks, and bonds in equal amounts. This decision reflects which part of the investment process?

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A) Asset allocation
B) Investment analysis
C) Portfolio analysis
D) Security selection

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

75) The Volcker Rule:

A) prohibits banks from proprietary trading.
B) restricts banks' investments in hedge funds.
C) restricts banks' investments in private equity funds.
D) All of the choices are correct.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

76) Until 1999, the _____ Act separated commercial banking and investment banking activities.

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A) Dodd-Frank Wall Street Reform and Consumer Protection
B) Sarbanes-Oxley
C) Glass-Steagall
D) Volcker Rule

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

77) The difference between LIBOR and the Treasury-bill rate:

A) is called the TED spread.
B) measures credit risk in the banking sector.
C) was very low just before the 2008 financial crisis.
D) All of the choices are correct.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

78) The Dodd-Frank Reform Act does all of the following except:

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A) reduces capital requirements for banks.
B) limits the risk-taking in which banks can engage.
C) requires public companies to set "claw-back" provisions.
D) creates an office within the SEC to oversee credit rating agencies.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

79) Which insurance company sold more than $400 billion of CDS contracts on subprime mortgages prior to the 2008 market crash?

A) Metlife
B) AIG
C) Northwestern Mutual
D) New York Life

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

80) Financial assets represent _____ of total assets of U.S. households in 2019.

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A) about 70%
B) over 90%
C) under 10%
D) about 30%

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Accessibility : Screen Reader Compatible
Gradable : automatic

81) Real assets in the economy include all but which one of the following?

A) Land
B) Buildings
C) Consumer durables
D) Common stock

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Accessibility : Screen Reader Compatible
Gradable : automatic

82) In 2019, net worth represented _____ of the liabilities and net worth of commercial banks.

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A) about 51%
B) about 91%
C) about 11%
D) about 31%

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : Financial Intermediaries
Accessibility : Screen Reader Compatible
Gradable : automatic

83) According to the *Flow of Funds Accounts of the United States,* the largest single asset of U.S. households is _____.

A) mutual fund shares
B) real estate
C) pension reserves
D) corporate equity

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

84) According to the *Flow of Funds Accounts of the United States,* the largest liability of U.S. households is _____.

Essentials of Investments 12th edition Bodie Test Bank

A) mortgages
B) consumer credit
C) bank loans
D) gambling debts

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

85) _____ is *not* a derivative security.

A) A share of common stock
B) A call option
C) A futures contract
D) A put option

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Assets
Accessibility : Screen Reader Compatible
Gradable : automatic

86) According to the *Flow of Funds Accounts of the United States,* the largest financial asset of U.S. households is _____.

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A) mutual fund shares
B) corporate equity
C) pension reserves
D) deposits

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

87) Active trading in markets and competition among securities analysts helps ensure that:
1. Security prices approach informational efficiency.
2. Riskier securities are priced to offer higher potential returns.
3. Investors are unlikely to be able to consistently find under- or overvalued securities.

A) 1 only
B) 1 and 2 only
C) 2 and 3 only
D) 1, 2, and 3

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

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88) The material wealth of society is determined by the economy's _____, which is a function of the economy's _____.

A) investment bankers; financial assets
B) investment bankers; real assets
C) productive capacity; financial assets
D) productive capacity; real assets

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

89) Which of the following is *not* a money market security?

A) U.S. Treasury bill
B) 6-month maturity certificate of deposit
C) common stock
D) mortgage backed security

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : Financial Assets
Accessibility : Screen Reader Compatible
Gradable : automatic

Essentials of Investments 12th edition Bodie Test Bank

90) _____ assets generate net income to the economy, and _____ assets define allocation of income among investors.

A) Financial; financial
B) Financial; real
C) Real; financial
D) Real; real

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

91) Which of the following are financial assets?
1. Debt securities
2. Equity securities
3. Derivative securities

A) 1 only
B) 1 and 2 only
C) 2 and 3 only
D) 1, 2, and 3

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

Essentials of Investments 12th edition Bodie Test Bank

92) _____ are examples of financial intermediaries.

A) Commercial banks
B) Insurance companies
C) Investment companies
D) All of the choices are correct.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Intermediaries
Learning Objective : 01-05 Identify different types of financial markets and the major participants i
Accessibility : Screen Reader Compatible
Gradable : automatic

93) *Asset allocation* refers to _____.

A) the allocation of the investment portfolio across broad asset classes
B) the analysis of the value of securities
C) the choice of specific assets within each asset class
D) None of the choices are correct.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

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94) Which one of the following best describes the purpose of derivatives markets?

A) Transferring risk from one party to another.
B) Investing for a short time period to earn a small rate of return.
C) Investing for retirement
D) Earning interest income

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

95) *Security selection* refers to the _____.

A) allocation of the investment portfolio across broad asset classes
B) analysis of the broad asset classes
C) choice of specific securities within each asset class
D) top-down method of investing

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

96) Which of the following is an example of an agency problem?

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A) Managers engage in empire building.
B) Managers protect their jobs by avoiding risky projects.
C) Managers overconsume luxuries such as corporate jets.
D) All of the options are examples of agency problems.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

97) _____ is (are) a mechanism for mitigating potential agency problems.

A) Tying income of managers to success of the firm
B) Directors defending top management
C) Antitakeover strategies
D) All of the choices are correct.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

98) _____ is (are) real assets.

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A) Bonds
B) Production equipment
C) Stocks
D) Life insurance

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Accessibility : Screen Reader Compatible
Gradable : automatic

99) _____ portfolio construction starts with selecting attractively priced securities.

A) Bottom-up
B) Top-down
C) Upside-down
D) Side-to-side

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

100) In a market economy, capital resources are primarily allocated by _____.

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A) governments
B) corporation CEOs
C) financial markets
D) investment bankers

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

101) _____ represents an ownership share in a corporation.

A) A call option
B) Common stock
C) A fixed-income security
D) Preferred stock

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Assets
Accessibility : Screen Reader Compatible
Gradable : automatic

102) The value of a derivative security _____.

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A) depends on the value of another related security
B) affects the value of a related security
C) is unrelated to the value of a related security
D) can be integrated only by calculus professors

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Assets
Accessibility : Screen Reader Compatible
Gradable : automatic

103) Commodity and derivative markets allow firms to adjust their _____.

A) management styles
B) focus from their main line of business to their investment portfolios
C) ways of doing business so that they'll always have positive returns
D) exposure to various business risks

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

104) _____ portfolio management calls for holding diversified portfolios without spending effort or resources attempting to improve investment performance through security analysis.

Essentials of Investments 12th edition Bodie Test Bank

A) Active
B) Momentum
C) Passive
D) Market-timing

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : Efficient Markets
Accessibility : Screen Reader Compatible
Gradable : automatic

105) Financial markets allow for all but which one of the following?

A) Shift consumption through time from higher-income periods to lower.
B) Price securities according to their riskiness.
C) Channel funds from lenders of funds to borrowers of funds.
D) Allow most participants to routinely earn high returns with low risk.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

106) Financial intermediaries exist because small investors cannot efficiently _____.

Essentials of Investments 12th edition Bodie Test Bank

A) diversify their portfolios
B) gather information
C) assess and monitor the credit risk of borrowers
D) All of the choices are correct.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Intermediaries
Learning Objective : 01-05 Identify different types of financial markets and the major participants i
Accessibility : Screen Reader Compatible
Gradable : automatic

107) Methods of encouraging managers to act in shareholders' best interest include:
1. Threat of takeover.
2. Proxy fights for control of the board of directors.
3. Tying managers' compensation to stock price performance.

A) 1 only
B) 1 and 2 only
C) 2 and 3 only
D) 1, 2, and 3

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

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108) Firms that specialize in helping companies raise capital by selling securities to the public are called _____.

A) pension funds
B) investment banks
C) savings banks
D) REITs

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Intermediaries
Learning Objective : 01-05 Identify different types of financial markets and the major participants i
Accessibility : Screen Reader Compatible
Gradable : automatic

109) In securities markets, there should be a risk-return trade-off with higher-risk assets having _____ expected returns than lower-risk assets.

A) higher
B) lower
C) the same
D) The answer cannot be determined from the information given.

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

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110) When the market is more optimistic about a firm, its share price will _____; as a result, it will need to issue _____ shares to raise funds that are needed.

A) rise; fewer
B) fall; fewer
C) rise; more
D) fall; more

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

111) *Security selection* refers to _____.

A) choosing specific securities within each asset class
B) deciding how much to invest in each asset class
C) deciding how much to invest in the market portfolio versus the riskless asset
D) deciding how much to hedge

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

112) An example of a derivative security is _____.

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A) a common share of General Motors
B) a call option on Intel stock
C) a Ford bond
D) a U.S. Treasury bond

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Assets
Accessibility : Screen Reader Compatible
Gradable : automatic

113) _____ portfolio construction starts with asset allocation.

A) Bottom-up
B) Top-down
C) Upside-down
D) Side-to-side

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

114) Which one of the following firms falsely claimed to have a $4.8 billion bank account, eventually resulting in the firm's bankruptcy?

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A) WorldCom
B) Enron
C) Parmalat
D) Global Crossing

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

115) Debt securities promise:
1. A fixed stream of income.
2. A stream of income that is determined according to a specific formula.
3. A share in the profits of the issuing entity.

A) 1 only
B) 1 or 2 only
C) 1 and 3 only
D) 2 or 3 only

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : Financial Assets
Accessibility : Screen Reader Compatible
Gradable : automatic

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116) The Sarbanes-Oxley Act tightened corporate governance rules by requiring all but which one of the following?

A) Required that corporations have more independent directors.
B) Required that the CFO personally vouch for the corporation's financial statements.
C) Required that firms could no longer employ investment bankers to sell securities to the public.
D) Required the creation of a new board to oversee the auditing of public companies.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

117) The success of common stock investments depends on the success of _____.

A) derivative securities
B) fixed-income securities
C) the firm and its real assets
D) government methods of allocating capital

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Assets
Accessibility : Screen Reader Compatible
Gradable : automatic

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118) The historical average rate of return on large company stocks since 1926 has been _____.

A) about 5%
B) about 8%
C) about 12%
D) about 20%

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

119) The average rate of return on U.S. Treasury bills since 1926 was _____.

A) less than 1%
B) less than 4%
C) over 4%
D) over 12%

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

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120) An example of a real asset is:
1. A college education
2. Customer goodwill
3. A patent

A) 1 only
B) 2 only
C) 1 and 3 only
D) 1, 2, and 3

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

121) The 2002 law designed to improve corporate governance is titled the _____.

A) Pension Reform Act
B) ERISA
C) Financial Services Modernization Act
D) Sarbanes-Oxley Act

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Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

122) Which of the following is *not* a financial intermediary?

A) A mutual fund
B) An insurance company
C) A real estate brokerage firm
D) A credit union

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : Financial Intermediaries
Accessibility : Screen Reader Compatible
Gradable : automatic

123) The combined liabilities of American households in 2019 represent approximately _____ of combined assets.

A) 11%
B) 13%
C) 25%
D) 33%

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Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

124) In 2019 real assets represented approximately _____ of the total asset holdings of American households.

A) 29%
B) 42%
C) 48%
D) 55%

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

125) In 2019, mortgages represented approximately _____ of total liabilities and net worth of American households.

A) 9%
B) 14%
C) 28%
D) 42%

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Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

126) Liabilities equal approximately _____ of total assets for nonfinancial U.S. businesses in 2019.

A) 14%
B) 24%
C) 44%
D) 56%

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

127) Which of the following is *not* an example of a financial intermediary?

A) Goldman Sachs
B) Allstate Insurance
C) First Interstate Bank
D) IBM

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Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Intermediaries
Accessibility : Screen Reader Compatible
Gradable : automatic

128) Real assets represent about _____ of total assets for commercial banks and savings institutions in 2019.

A) 1%
B) 15%
C) 25%
D) 40%

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : Financial Intermediaries
Accessibility : Screen Reader Compatible
Gradable : automatic

129) Money market securities are characterized by:
1. Maturity less than 1 year
2. Safety of the principal investment
3. Low rates of return

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A) 1 only
B) 1 and 2 only
C) 1 and 3 only
D) 1, 2, and 3

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Assets
Accessibility : Screen Reader Compatible
Gradable : automatic

130) After much investigation, an investor finds that Intel stock is currently underpriced. This is an example of _____.

A) asset allocation
B) security analysis
C) top-down portfolio management
D) passive management

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

131) After considering current market conditions, an investor decides to place 60% of her funds in equities and the rest in bonds. This is an example of _____.

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A) asset allocation
B) security analysis
C) top-down portfolio management
D) passive management

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

132) Suppose an investor is considering one of two investments that are identical in all respects except for risk. If the investor anticipates a fair return for the risk of the security he invests in, he can expect to _____.

A) earn no more than the Treasury-bill rate on either security
B) pay less for the security that has higher risk
C) pay less for the security that has lower risk
D) earn more if interest rates are lower

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

133) The efficient market hypothesis suggests that _____.

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A) active portfolio management strategies are the most appropriate investment strategies
B) passive portfolio management strategies are the most appropriate investment strategies
C) either active or passive strategies may be appropriate, depending on the expected direction of the market
D) a bottom-up approach is the most appropriate investment strategy

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

134) In a perfectly efficient market the best investment strategy is probably _____.

A) an active strategy
B) a passive strategy
C) asset allocation
D) market timing

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

135) Market signals will help to allocate capital efficiently only if investors are acting _____.

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A) on the basis of their individual hunches
B) as directed by financial experts
C) as dominant forces in the economy
D) on accurate information

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

136) Which of the following is (are) true about hedge funds?
1. They are open to institutional investors.
2. They are open to wealthy individuals.
3. They are more likely than mutual funds to pursue simple strategies.

A) 1 and 2 only
B) 1 and 3 only
C) 2 and 3 only
D) 1, 2, and 3

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

137) Venture capital is _____.

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A) frequently used to expand the businesses of well-established companies
B) supplied by venture capital funds and individuals to start-up companies
C) illegal under current U.S. laws
D) most frequently issued with the help of investment bankers

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

138) Individuals may find it more advantageous to purchase claims from a financial intermediary rather than directly purchasing claims in capital markets because:
1. Intermediaries are better diversified than most individuals.
2. Intermediaries can exploit economies of scale in investing that individual investors cannot.
3. Intermediated investments usually offer higher rates of return than direct capital market claims.

A) 1 only
B) 1 and 2 only
C) 2 and 3 only
D) 1, 2, and 3

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : Financial Intermediaries
Accessibility : Screen Reader Compatible
Gradable : automatic

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139) Surf City Software Company develops new surf forecasting software. It sells the software to Microsoft in exchange for 1,000 shares of Microsoft common stock. Surf City Software has exchanged a _____ asset for a _____ asset in this transaction.

A) real; real
B) financial; financial
C) real; financial
D) financial; real

Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

140) Stone Harbor Products takes out a bank loan. It receives $100,000 and signs a promissory note to pay back the loan over 5 years. In this transaction, _____.

A) a new financial asset was created
B) a financial asset was traded for a real asset
C) a financial asset was destroyed
D) a real asset was created

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Question Details
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Gradable : automatic

141) Which of the following firms was *not* engaged in a major accounting scandal between 2000 and 2005?

A) General Electric
B) Parmalat
C) Enron
D) WorldCom

Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

142) Accounting scandals can often be attributed to a concept in the study of finance known as the _____.

A) agency problem
B) risk-return trade-off
C) allocation of risk
D) securitization

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Question Details
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

143) An intermediary that pools and manages funds for many investors is called _____.

A) an investment company
B) an insurance company
C) an investment banker
D) a commercial bank

Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Intermediaries
Accessibility : Screen Reader Compatible
Gradable : automatic

144) Financial institutions that specialize in assisting corporations in primary market transactions are called _____.

A) mutual funds
B) investment bankers
C) pension funds
D) globalization specialists

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Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Topic : Financial Intermediaries
Accessibility : Screen Reader Compatible
Gradable : automatic

145) When a pass-through mortgage security is issued, what does the issuing agency expect to receive?

A) The amount of the original loan plus a servicing fee.
B) The principal and interest that are paid by the homeowner.
C) The principal and interest that are paid by the homeowner, minus a servicing fee.
D) The interest paid by the homeowner, plus a servicing fee.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

146) In 2008 the largest corporate bankruptcy in U.S. history involved the investment banking firm of _____.

A) Goldman Sachs
B) Lehman Brothers
C) Morgan Stanley
D) Merrill Lynch

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Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

147) The inability of shareholders to influence the decisions of managers, despite overwhelming shareholder support, is a breakdown in what process or mechanism?

A) Auditing
B) Public finance
C) Corporate governance
D) Public reporting

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-03 Explain the economic functions of financial markets and how various securi
Topic : Financial Markets and the Economy
Accessibility : Screen Reader Compatible
Gradable : automatic

148) Real assets are _____.

A) assets used to produce goods and services
B) always the same as financial assets
C) always equal to liabilities
D) claims on a company's income

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Question Details
Difficulty : 1 Easy
Learning Objective : 01-02 Distinguish between real assets and financial assets.
Accessibility : Keyboard Navigation
Type : Static
Topic : Real Assets versus Financial Assets
Bloom's : Remember
AACSB : Analytical Thinking
Accessibility : Screen Reader Compatible
Gradable : automatic

149) A major cause of the mortgage market meltdown in 2007 and 2008 was linked to _____.

A) private equity investments
B) securitization
C) negative analyst recommendations
D) online trading

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

150) In recent years the greatest dollar amount of securitization occurred for which type of loan?

A) Home mortgages
B) Credit card debt
C) Automobile loans
D) Equipment leasing

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Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

151) Which of the following is (are) true about nonconforming mortgage loans?

A) They are also known as *subprime loans.*
B) They have higher default risk than conforming loans.
C) They were able to be offered without due diligence.
D) All of the choices are correct.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

152) The systemic risk that led to the financial crisis of 2008 was increased by _____.

A) collateralized debt obligations
B) subprime mortgages
C) credit default swaps
D) All of the choices are correct.

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Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

153) An investment adviser has decided to purchase gold, real estate, stocks, and bonds in equal amounts. This decision reflects which part of the investment process?

A) Asset allocation
B) Investment analysis
C) Portfolio analysis
D) Security selection

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Learning Objective : 01-04 Describe the major steps in the construction of an investment portfolio.
Topic : The Investment Process
Accessibility : Screen Reader Compatible
Gradable : automatic

154) The Volcker Rule:

A) prohibits banks from proprietary trading.
B) restricts banks' investments in hedge funds.
C) restricts banks' investments in private equity funds.
D) All of the choices are correct.

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Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

155) Until 1999, the _____ Act separated commercial banking and investment banking activities.

A) Dodd-Frank Wall Street Reform and Consumer Protection
B) Sarbanes-Oxley
C) Glass-Steagall
D) Volcker Rule

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

156) The difference between LIBOR and the Treasury-bill rate:

A) is called the TED spread.
B) measures credit risk in the banking sector.
C) was very low just before the 2008 financial crisis.
D) All of the choices are correct.

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Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

157) The Dodd-Frank Reform Act does all of the following except:

A) reduces capital requirements for banks.
B) limits the risk-taking in which banks can engage.
C) requires public companies to set "claw-back" provisions.
D) creates an office within the SEC to oversee credit rating agencies.

Question Details
Accessibility : Keyboard Navigation
Type : Static
Bloom's : Remember
AACSB : Analytical Thinking
Difficulty : 2 Medium
Topic : The Financial Crisis of 2008
Accessibility : Screen Reader Compatible
Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

158) Which insurance company sold more than $400 billion of CDS contracts on subprime mortgages prior to the 2008 market crash?

A) Metlife
B) AIG
C) Northwestern Mutual
D) New York Life

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Question Details
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Gradable : automatic
Learning Objective : 01-06 Explain the causes and consequences of the financial crisis of 2008–

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Answer Key

Test name: 001

1) A
2) D
Real assets have productive capacity, common stock is a claim on real assets and has no intrinsic productive capacity.

3) C
4) B
5) A
6) A
Derivatives are securities that provide payoffs based on valued of other securities.

7) C
8) D
9) D
10) C
11) C
12) D
13) D
14) A
15) A
16) C
17) D
In each case, the agents (managers) do not act in the best interest of the principals (shareholders).

18) A

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19) B
Real assets, such as production equipment, have intrinsic productive capacity.

20) A
21) C
22) B
23) A
24) D
25) C
26) D
27) D
28) D
In each case, the method is designed to align the interests of management with the interests of the shareholders.

29) B
30) A
31) A
32) A
33) B
34) B
35) C
36) B
37) C
38) C
39) C
40) B
41) D
Each example has productive capacity, though intangible.

42) D

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43) C
44) B
45) A
46) A
47) C
48) D
49) A
50) D
51) B
52) A
53) B
54) B
55) B
56) D
57) A
58) B
59) B
60) C
61) A
62) A
63) A
64) A
65) B
66) C
67) B
68) C
69) A
70) B
71) A
72) D

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73) D
74) A
75) D
76) C
77) D
78) A
79) B
80) A
81) D
Real assets have productive capacity, common stock is a claim on real assets and has no intrinsic productive capacity.

82) C
83) B
84) A
85) A
Derivatives are securities that provide payoffs based on valued of other securities.

86) C
87) D
88) D
89) C
90) C
91) D
92) D
93) A
94) A
95) C
96) D

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In each case, the agents (managers) do not act in the best interest of the principals (shareholders).

97) A
98) B
Real assets, such as production equipment, have intrinsic productive capacity.

99) A
100) C
101) B
102) A
103) D
104) C
105) D
106) D
107) D
In each case, the method is designed to align the interests of management with the interests of the shareholders.

108) B
109) A
110) A
111) A
112) B
113) B
114) C
115) B
116) C
117) C
118) C
119) B

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120) D
Each example has productive capacity, though intangible.

121) D
122) C
123) B
124) A
125) A
126) C
127) D
128) A
129) D
130) B
131) A
132) B
133) B
134) B
135) D
136) A
137) B
138) B
139) C
140) A
141) A
142) A
143) A
144) B
145) C
146) B
147) C
148) A

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149) B
150) A
151) D
152) D
153) A
154) D
155) C
156) D
157) A
158) B

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