Investments (Canadian) 10th edition Bodie Test Bank

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Investments 10ce Edition by Bodie Ch01

1) The material wealth of a society is a function of

A) all financial assets.
B) all real assets.
C) all financial and real assets.
D) all physical assets.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Real Assets versus Financial Assets.
Topic : 01-01 Real Assets versus Financial Assets
Bloom's : Remember
Difficulty : Easy

2) _____ are real assets.

A) Land
B) Machines
C) Stocks and bonds
D) Knowledge
E) Land, machines, and knowledge

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Real Assets versus Financial Assets.
Topic : 01-01 Real Assets versus Financial Assets
Bloom's : Remember
Difficulty : Easy

3) The means by which individuals hold their claims on real assets in a well-developed economy are

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A) investment assets.
B) depository assets.
C) derivative assets.
D) financial assets.
E) exchange-driven assets.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Real Assets versus Financial Assets.
Topic : 01-01 Real Assets versus Financial Assets
Bloom's : Remember
Difficulty : Easy

4) _____ are financial assets.

A) Bonds
B) Machines
C) Stocks
D) Bonds and stocks
E) Bonds, machines, and stocks

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Real Assets versus Financial Assets.
Topic : 01-01 Real Assets versus Financial Assets
Bloom's : Remember
Difficulty : Easy

5) _____ financial asset(s).

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A) Buildings are
B) Land is a
C) Derivatives are
D) Canadian T-Bills are
E) Derivatives and Canadian bonds are

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Real Assets versus Financial Assets.
Topic : 01-01 Real Assets versus Financial Assets
Bloom's : Remember
Difficulty : Easy

6) Financial assets

A) directly contribute to the country's productive capacity.
B) indirectly contribute to the country's productive capacity.
C) contribute to the country's productive capacity, both directly and indirectly.
D) do not contribute to the country's productive capacity, either directly or indirectly.
E) are of no value to anyone.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Real Assets versus Financial Assets.
Topic : 01-01 Real Assets versus Financial Assets
Difficulty : Easy
Bloom's : Understand

7) A security that pays a specified cash flow over a specific period is called

Investments (Canadian) 10th edition Bodie Test Bank

A) fixed income.
B) stock option.
C) mutual fund.
D) real estate.
E) index.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Bloom's : Understand
Learning Objective : 01-02 Financial Assets.
Topic : 01-02 Financial Assets

8) _____ is a commodity.

A) Money
B) Forward contract
C) Natural gas
D) A bond
E) Treasury-bill

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Bloom's : Understand
Learning Objective : 01-02 Financial Assets.
Topic : 01-02 Financial Assets

9) Compared to investments in debt securities, equity investments tend to be

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A) equally risky.
B) riskier.
C) less risky.
D) more important.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-02 Financial Assets.
Topic : 01-02 Financial Assets

10) Which one of the following is not a role of the financial markets?

A) Consumption timing
B) Information
C) Separation of ownership and control
D) Increasing wealth of the economy
E) Risk allocation

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Bloom's : Understand
Learning Objective : 01-03 Financial Markets and the Economy.
Topic : 01-03 Financial Markets and the Economy

11) Holding highly diversified portfolios without spending effort or other resources attempting to improve investment performance through security analysis is a characteristic of

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A) Active management.
B) Passive management.
C) Both active and passive management.
D) Risk-return trade-off.
E) Efficient markets.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Markets Are Competitive.
Topic : 01-05 Consumption Timing

12) The attempt to improve performance either by identifying mispriced securities or by timing the performance of broad asset classes is a characteristic of:

A) Active management
B) Passive management
C) Both active and passive management
D) Risk-return trade-off
E) Efficient markets

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Markets Are Competitive.
Topic : 01-10 Markets Are Competitive

13) A common measure of credit risk in the banking sector is

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A) systemic Risk.
B) treasury-bill.
C) TED spread.
D) LIBOR.
E) yield curve.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-07 The Financial Crisis of 2008-2009.
Topic : 01-17 Fintech and Financial Innovation

14) _____ is in an insurance contract against the default of one or more borrowers.

A) Collateralized debt obligation
B) credit default swap
C) Freddie Mac
D) Adjustable-rate mortgage
E) Fannie Mae

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-07 The Financial Crisis of 2008-2009.
Topic : 01-17 Fintech and Financial Innovation

15) Systemic risk is

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A) credit risk.
B) an insurance contract against the default of one or more borrowers.
C) firm-specific risk.
D) default risk.
E) the potential breakdown of the financial system when problems in one market spill over and disrupt others.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-07 The Financial Crisis of 2008-2009.
Topic : 01-17 Fintech and Financial Innovation

16) A fixed-income security pays

A) a fixed level of income for the life of the owner.
B) a fixed stream of income or a stream of income that is determined according to a specified formula for the life of the security.
C) a variable level of income for owners on a fixed income.
D) a fixed or variable income stream at the option of the owner.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-02 Financial Assets.
Topic : 01-02 Financial Assets

17) A debt security pays

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A) a fixed level of income for the life of the owner.
B) a variable level of income for owners on a fixed income.
C) a fixed or variable income stream at the option of the owner.
D) a fixed stream of income or a stream of income that is determined according to a specified formula for the life of the security.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-02 Financial Assets.
Topic : 01-02 Financial Assets

18) Money market securities

A) are short term.
B) are highly marketable.
C) are medium risk.
D) are highly marketable and are short term.
E) All of the options.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-02 Financial Assets.
Topic : 01-02 Financial Assets

19) An example of a derivative security is

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A) a common share of Amazon.
B) a call option on the S&P500 Index.
C) A crude oil futures contract.
D) a call option on S&P500 Index and a crude oil futures contract.
E) a common share of Amazon and a call option on the S&P500 Index.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-02 Financial Assets.
Topic : 01-02 Financial Assets

20) The value of a derivative security

A) depends on the value of the related security.
B) is unable to be calculated.
C) is unrelated to the value of the related security.
D) has been enhanced due to the recent misuse and negative publicity regarding these instruments.
E) is worthless today.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Bloom's : Understand
Learning Objective : 01-02 Financial Assets.
Topic : 01-02 Financial Assets

21) Although derivatives can be used as speculative instruments, businesses most often use them to

Investments (Canadian) 10th edition Bodie Test Bank

A) attract customers.
B) appease stockholders.
C) offset debt.
D) hedge risks.
E) enhance their balance sheets.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-02 Financial Assets.
Topic : 01-02 Financial Assets

22) Financial assets permit all of the following except

A) consumption timing.
B) allocation of risk.
C) separation of ownership and control.
D) elimination of risk.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Real Assets versus Financial Assets.
Topic : 01-01 Real Assets versus Financial Assets
Bloom's : Remember
Difficulty : Medium

23) The _____ refers to the potential conflict between management and shareholders.

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A) agency problem
B) diversification problem
C) liquidity problem
D) solvency problem
E) regulatory problem

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-03 Financial Markets and the Economy.
Topic : 01-03 Financial Markets and the Economy

24) A disadvantage of using stock options to compensate managers is that

A) it encourages managers to undertake projects that will increase stock price.
B) it encourages managers to engage in empire building.
C) it can create an incentive for managers to manipulate information to prop up a stock price temporarily, giving them a chance to cash out before the price returns to a level reflective of the firm's true prospects.
D) All these above.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Bloom's : Understand
Learning Objective : 01-03 Financial Markets and the Economy.
Topic : 01-03 Financial Markets and the Economy

Investments (Canadian) 10th edition Bodie Test Bank

25) Which of the following are mechanisms that have evolved to mitigate potential agency problems?
I) Using the firm's stock options for compensation
II) Hiring bickering family members as corporate spies
III) Boards of directors forcing out underperforming management
IV) Security analysts monitoring the firm closely
V) Takeover threats

A) II and V
B) I, III, and IV
C) I, III, IV, and V
D) III, IV, and V
E) I, III, and V

Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Learning Objective : 01-03 Financial Markets and the Economy.
Topic : 01-03 Financial Markets and the Economy
Difficulty : Medium

26) Corporate shareholders are best protected from incompetent management decisions by

A) the ability to engage in proxy fights.
B) management's control of pecuniary rewards.
C) the ability to call shareholder meetings.
D) the threat of takeover by other firms.
E) one-share/one-vote election rules.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Learning Objective : 01-03 Financial Markets and the Economy.
Topic : 01-03 Financial Markets and the Economy
Difficulty : Medium

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27) Theoretically, takeovers should result in

A) improved management.
B) increased stock price.
C) increased benefits to existing management of the taken-over firm.
D) improved management and increased stock price.
E) All of the options.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-03 Financial Markets and the Economy.
Topic : 01-03 Financial Markets and the Economy

28) During the period between 2000 and 2002, a large number of scandals were uncovered. Most of these scandals were related to
I) manipulation of financial data to misrepresent the actual condition of the firm.
II) misleading and overly optimistic research reports produced by analysts.
III) allocating IPOs to executives as a quid pro quo for personal favors.
IV) greenmail.

A) II, III, and IV
B) I, II, and IV
C) II and IV
D) I, III, and IV
E) I, II, and III

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Learning Objective : 01-03 Financial Markets and the Economy.
Topic : 01-03 Financial Markets and the Economy
Difficulty : Medium

29) The Sarbanes-Oxley Act

A) requires corporations to have more independent directors.
B) requires the firm's CFO to personally vouch for the firm's accounting statements.
C) prohibits auditing firms from providing other services to clients.
D) requires corporations to have more independent directors and requires the firm's CFO to personally vouch for the firm's accounting statements.
E) All these above.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Financial Markets and the Economy.
Topic : 01-03 Financial Markets and the Economy
Difficulty : Medium

30) Asset allocation refers to

A) choosing which securities to hold based on their valuation.
B) investing only in "safe" securities.
C) the allocation of assets into broad asset classes.
D) bottom-up analysis.
E) Asset allocation refers to the allocation of assets into broad asset classes.

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-04 The Investment Process.
Topic : 01-09 The Investment Process

31) Security selection refers to

A) choosing which securities to hold based on their valuation.
B) investing only in "safe" securities.
C) the allocation of assets into broad asset classes.
D) top-down analysis.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-04 The Investment Process.
Topic : 01-09 The Investment Process

32) Which of the following portfolio construction methods starts with security analysis?

A) Top-down
B) Bottom-up
C) Middle-out
D) Buy and hold
E) Asset allocation

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-04 The Investment Process.
Topic : 01-09 The Investment Process

33) Which of the following portfolio construction methods starts with asset allocation?

A) Top-down
B) Bottom-up
C) Middle-out
D) Buy and hold
E) Asset allocation

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-04 The Investment Process.
Topic : 01-09 The Investment Process

34) _____ are examples of financial intermediaries.

A) Commercial banks
B) Insurance companies
C) Investment companies
D) Credit unions
E) All of the options

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 The Players.
Topic : 01-13 The Players

35) Financial intermediaries exist because small investors cannot efficiently

A) diversify their portfolios.
B) assess credit risk of borrowers.
C) advertise for needed investments.
D) diversify their portfolios and assess credit risk of borrowers.
E) All of the options.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 The Players.
Topic : 01-13 The Players

36) _____ specialize in helping companies raise capital by selling securities.

A) Commercial bankers
B) Investment bankers
C) Investment issuers
D) Credit raters

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 The Players.
Topic : 01-13 The Players

37) Commercial banks differ from other businesses in that both their assets and their liabilities are mostly

A) illiquid.
B) financial.
C) real.
D) owned by the government.
E) regulated.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Bloom's : Understand
Learning Objective : 01-06 The Players.
Topic : 01-13 The Players

38) In 2016, _____ was(were) the most significant financial asset(s) of U.S. commercial banks in terms of total value.

A) loans and leases
B) cash
C) real estate
D) deposits
E) investment securities

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 The Players.
Topic : 01-13 The Players

39) In 2016, _____ was(were) the most significant liability(ies) of U.S. commercial banks in terms of total value.

A) loans and leases
B) cash
C) real estate
D) deposits
E) investment securities

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 The Players.
Topic : 01-13 The Players

40) In 2016, _____ was(were) the most significant real asset(s) of U.S. nonfinancial businesses in terms of total value.

A) equipment and software
B) inventory
C) real estate
D) trade credit
E) marketable securities

Investments (Canadian) 10th edition Bodie Test Bank

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Real Assets versus Financial Assets.
Topic : 01-01 Real Assets versus Financial Assets
Bloom's : Remember
Difficulty : Easy

41) In 2016, _____ was(were) the least significant real asset(s) of U.S. nonfinancial businesses in terms of total value.

A) equipment and software
B) inventory
C) real estate
D) trade credit
E) marketable securities

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Real Assets versus Financial Assets.
Topic : 01-01 Real Assets versus Financial Assets
Bloom's : Remember
Difficulty : Easy

42) In 2016, _____ was(were) the least significant liability(ies) of U.S. nonfinancial businesses in terms of total value.

A) bonds and mortgages
B) bank loans
C) inventories
D) trade debt
E) marketable securities

Investments (Canadian) 10th edition Bodie Test Bank

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-02 Financial Assets.
Topic : 01-02 Financial Assets

43) In terms of total value, the most significant liability(ies) of U.S. nonfinancial businesses in 2016 was(were)

A) bank loans.
B) bonds and mortgages.
C) trade debt.
D) other loans.
E) marketable securities.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-02 Financial Assets.
Topic : 01-02 Financial Assets

44) In 2016, _____ was(were) the least significant financial asset(s) of U.S. nonfinancial businesses in terms of total value.

A) cash and deposits
B) trade credit
C) trade debt
D) inventory
E) marketable securities

Investments (Canadian) 10th edition Bodie Test Bank

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Real Assets versus Financial Assets.
Topic : 01-01 Real Assets versus Financial Assets
Bloom's : Remember
Difficulty : Easy

45) New issues of securities are sold in the _____ market(s).

A) primary
B) secondary
C) over-the-counter
D) primary and secondary

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 The Players.
Topic : 01-13 The Players

46) Investors trade previously issued securities in the _____ market(s).

A) primary
B) secondary
C) primary and secondary
D) derivatives

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 The Players.
Topic : 01-13 The Players

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47) Investment bankers perform which of the following role(s)?

A) Market new stock and bond issues for firms
B) Provide advice to the firms as to market conditions, price, etc.
C) Design securities with desirable properties
D) All of the options
E) None of the options

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Bloom's : Understand
Learning Objective : 01-06 The Players.
Topic : 01-13 The Players

48) Until 1999, the _____ Act(s) prohibited banks in the United States from both accepting deposits and underwriting securities.

A) Sarbanes-Oxley
B) Glass-Steagall
C) SEC
D) Sarbanes-Oxley and SEC
E) None of the options

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 The Players.
Topic : 01-13 The Players

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49) The spread between the LIBOR and the Treasury-bill rate is called the

A) term spread.
B) T-bill spread.
C) LIBOR spread.
D) TED spread.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-07 The Financial Crisis of 2008-2009.
Topic : 01-17 Fintech and Financial Innovation

50) Mortgage-backed securities were created when _____ began buying mortgage loans from originators and bundling them into large pools that could be traded like any other financial asset.

A) GNMA
B) FNMA
C) FHLMC
D) FNMA and FHLMC
E) GNMA and FNMA

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-07 The Financial Crisis of 2008-2009.
Topic : 01-17 Fintech and Financial Innovation

51) The sale of a mortgage portfolio by setting up mortgage pass-through securities is an example of

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A) credit enhancement.
B) credit swap.
C) unbundling.
D) derivatives.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Bloom's : Understand
Learning Objective : 01-07 The Financial Crisis of 2008-2009.
Topic : 01-17 Fintech and Financial Innovation

52) Which of the following is true about mortgage-backed securities?
I) They aggregate individual home mortgages into homogeneous pools.
II) The purchaser receives monthly interest and principal payments received from payments made on the pool.
III) The banks that originated the mortgages maintain ownership of them.
IV) The banks that originated the mortgages may continue to service them.

A) II, III, and IV
B) I, II, and IV
C) II and IV
D) I, III, and IV
E) I, II, III, and IV

Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Learning Objective : 01-07 The Financial Crisis of 2008-2009.
Topic : 01-17 Fintech and Financial Innovation
Difficulty : Medium

53) _____ were designed to concentrate the credit risk of a bundle of loans on one class of investor, leaving the other investors in the pool relatively protected from that risk.

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A) Stocks
B) Bonds
C) Derivatives
D) Collateralized debt obligations
E) All of the options

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Bloom's : Understand
Learning Objective : 01-07 The Financial Crisis of 2008-2009.
Topic : 01-17 Fintech and Financial Innovation

54) _____ are, in essence, an insurance contract against the default of one or more borrowers.

A) Credit default swaps
B) CMOs
C) ETFs
D) Collateralized debt obligations
E) All of the options

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Bloom's : Understand
Learning Objective : 01-07 The Financial Crisis of 2008-2009.
Topic : 01-17 Fintech and Financial Innovation

55) What fueled the stock market rally that took hold in April 2020 during the COVID-19 Pandemic?

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A) Massive vaccinations across the world
B) Indication from central banks that interest rates would remain low
C) Expectations of a strong recovery in economic growth
D) B and C
E) All of the options

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-08 The COVID-19 Pandemic.
Topic : 01-27 The COVID-19 Pandemic

56) The Canadian equity market, with its relatively high weight in resource stocks, tends to perform well in _____

A) An inflationary environment.
B) A financial crisis.
C) A global pandemic.
D) A deflationary environment.
E) All of the options

Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : Medium
Learning Objective : 01-08 The COVID-19 Pandemic.
Topic : 01-27 The COVID-19 Pandemic

57) Most venture capital funds are set up as

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A) An insurance company
B) Sole Proprietorships.
C) Corporations.
D) Limited partnerships.
E) None of the options

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 The Players.
Topic : 01-16 Venture Capital and Private Equity

58) The so-called Volcker Rule, named after former chair of the Federal Reserve Paul Volcker, prohibits banks from trading for their own accounts and limits total investments in _____ or _____ funds.

A) hedge funds
B) private equity
C) mutual funds
D) equity funds
E) Hedge funds, private equity

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-07 The Financial Crisis of 2008-2009.
Difficulty : Medium
Topic : 01-18 The Financial Crisis of 2008-2009

59) Mortgage-backed securities

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A) aggregate individual home mortgages into homogeneous pools
B) Are owned by the banks that originated the mortgages maintain ownership of them.
C) Are derivatives
D) insurance contract against the default of one or more borrowers

Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Learning Objective : 01-07 The Financial Crisis of 2008-2009.
Difficulty : Medium
Topic : 01-21 Mortgage Derivatives

Investments (Canadian) 10th edition Bodie Test Bank

Investments 10ce Edition by Bodie Ch01

Answer Key

Test name: Ch01

1) B
2) E
Land, machines and knowledge are real assets; stocks and bonds are financial assets.

3) D
Financial assets allocate the wealth of the economy. Example: it is easier for an individual to own shares of an auto company than to own an auto company directly.

4) D
Machines are real assets; stocks and bonds are financial assets.

5) E
Buildings and land are real assets.

6) B
7) A
8) C
9) B
10) D
11) B
12) A
13) C
14) B
15) E
16) B

Investments (Canadian) 10th edition Bodie Test Bank

A fixed-income security pays a fixed stream of income or a stream of income that is determined according to a specified formula for the life of the security.

17) D
A debt security pays a fixed stream of income or a stream of income that is determined according to a specified formula for the life of the security.

18) D
19) D
The values of a call option on S&P500 Index stock and a crude oil futures contract are derived from that of an underlying asset; the value of a common share of Amazon is based on the value of the firm only.

20) A
Of the factors cited above, only the value of the related security affects the value of the derivative and/or is a true statement.

21) D
Firms may use forward contracts and futures to protect against currency fluctuations or changes in commodity prices. Interest-rate options help companies control financing costs.

22) D
Financial assets do not allow risk to be eliminated. However, they do permit allocation of risk, consumption timing, and separation of ownership and control.

23) A
The agency problem describes potential conflict between management and shareholders. The other problems are those of firm management only.

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24) C
25) C
26) D
Proxy fights are expensive and seldom successful, and management may often control the board or own significant shares. It is the threat of takeover of underperforming firms that has the strongest ability to keep management on their toes.

27) D
28) E
I, II, and III are all mentioned as causes of recent scandals.

29) E
30) C
31) A
Security selection refers to choosing which securities to hold based on their valuation.

32) B
Bottom-up refers to using security analysis to find securities that are attractively priced. Top-down refers to using asset allocation as a starting point.

33) A
Bottom-up refers to using security analysis to find securities that are attractively priced.

34) E
All are institutions that bring borrowers and lenders together.

35) E
36) B

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An important role of investment banking is to act as middlemen in helping firms place new issues in the market.

37) B
See Table 1.3.

38) A
39) D
40) C
41) B
42) B
43) B
44) E
45) A
New issues of securities are sold in the primary market.

46) B
Investors trade previously issued securities in the secondary market.

47) D
Investment bankers perform all of the roles described above for their clients.

48) B
Until 1999, the Glass-Steagall Act prohibited banks in the United States from both accepting deposits and underwriting securities.

49) D
The spread between the LIBOR and the Treasury-bill rate is called the TED spread.

50) D

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Mortgage-backed securities were created when FNMA and FHLMC began buying mortgage loans from originators and bundling them into large pools that could be traded like any other financial asset.

51) B
52) B
53) D
Collateralized debt obligations were designed to concentrate the credit risk of a bundle of loans on one class of investor, leaving the other investors in the pool relatively protected from that risk.

54) A
55) D
Faced with a global emergency, massive resources were allocated to the development of vaccines to protect against COVID-19, which fuelled the stock market rally that took hold in April 2020.

56) A
The Canadian equity market, with its relatively high weight in resource stocks, tends to perform well in an inflationary environment.

57) D
58) D
The so-called Volcker Rule, named after former chair of the Federal Reserve Paul Volcker, prohibits banks from trading for their own accounts and limits total investments in hedge funds or private equity funds.

59) A

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