Fundamentals of Financial Management Concise Edition 9th edition Brigham Test Bank

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Chapter_02_Financial_Markets_and_Institutions.pdf

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Chapter 02: Financial Markets and Institutions

Note that there is an overlap between the T/F and multiple-choice questions, as some of the T/F statements are used in multiple-choice questions.

Multiple Choice: True/False

1. A financial intermediary is a corporation that takes funds from investors and then provides those funds to those who need capital. A bank that takes in demand deposits and then uses that money to make long-term mortgage loans is one example of a financial intermediary.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-1 The Capital Allocation Process
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.01 - The Capital Allocation Process
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Financial intermediaries
KEYWORDS:	Bloom's: Knowledge

2. The NYSE is defined as a "spot" market purely and simply because it has a physical location. The NASDAQ, on the other hand, is not a spot market because it has no one central location.

a. True

b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-2 Financial Markets
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.02 - Financial Markets
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Financial markets
KEYWORDS:	Bloom's: Knowledge

3. The NYSE is defined as a "primary" market because it is one of the largest and most important stock markets in the world.

a. True

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b. False

ANSWER: False
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-2 Financial Markets
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.02 - Financial Markets
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS: United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS: Financial markets
KEYWORDS: Bloom's: Knowledge

4. Primary markets are large and important, while secondary markets are smaller and less important.

a. True

b. False

ANSWER: False
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-2 Financial Markets
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.02 - Financial Markets
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
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TOPICS: Financial markets
KEYWORDS: Bloom's: Knowledge

5. Private markets are those like the NYSE, where transactions are handled by members of the organization, while public markets are those like the NASDAQ, where anyone can make transactions.

a. True

b. False

ANSWER: False
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-2 Financial Markets
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.02 - Financial Markets
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking

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TOPICS:	Financial markets
KEYWORDS:	Bloom's: Knowledge

6. A share of common stock is not a derivative, but an option to buy the stock is a derivative because the value of the option is derived from the value of the stock.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-2 Financial Markets
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.02 - Financial Markets
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
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TOPICS:	Financial markets
KEYWORDS:	Bloom's: Knowledge

7. Financial institutions are more diversified today than they were in the past, when federal laws kept investment banks, commercial banks, insurance companies, and similar organizations quite separate. Today the larger financial services corporations offer a variety of services, ranging from checking accounts, to insurance, to underwriting securities, to stock brokerage.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-3 Financial Institutions
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.03 - Financial Institutions
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
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KEYWORDS:	Bloom's: Knowledge

8. Hedge funds are somewhat similar to mutual funds. The primary differences are that hedge funds are less highly regulated, have more flexibility regarding what they can buy, and restrict their investors to wealthy, sophisticated

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individuals and institutions.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-3 Financial Institutions
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.03 - Financial Institutions
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
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TOPICS:	Financial institutions
KEYWORDS:	Bloom's: Knowledge

9. Trades on the NYSE are generally completed by having a brokerage firm acting as a "dealer" buy securities and adding them to its inventory or selling from its inventory. The NASDAQ, on the other hand, operates as an auction market, where buyers offer to buy, and sellers to sell, and the price is negotiated on the floor of the exchange.

a. True

b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-4 The Stock Market
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.04 - The Stock Market
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Stock market
KEYWORDS:	Bloom's: Knowledge

10. The "over-the-counter" market received its name years ago because brokerage firms would hold inventories of stocks and then sell them by literally passing them over the counter to the buyer.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-4 The Stock Market
QUESTION TYPE:	True / False

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HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.04 - The Stock Market
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Stock market
KEYWORDS:	Bloom's: Knowledge

11. If you decide to buy 100 shares of Google, you would probably do so by calling your broker and asking him or her to execute the trade for you. This would be defined as a secondary market transaction, not a primary market transaction.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-5 The Market for Common Stock
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.05 - The Market for Common Stock
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Stock market transactions
KEYWORDS:	Bloom's: Knowledge

12. The term IPO stands for "individual purchase order," as when an individual (as opposed to an institution) places an order to buy a stock.

a. True

b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-5 The Market for Common Stock
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.05 - The Market for Common Stock
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
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LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Stock market transactions
KEYWORDS:	Bloom's: Knowledge

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13. In a "Dutch auction" for new stock, individual investors place bids for shares directly. Each potential bidder indicates the price he or she is willing to pay and how many shares he or she will purchase at that price. The highest price that permits the company to sell all the shares it wants to sell is determined, and this is the "market clearing price." All bidders who specified this price or higher are allowed to purchase their shares at the market clearing price.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-5 The Market for Common Stock
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.05 - The Market for Common Stock
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Stock market transactions
KEYWORDS:	Bloom's: Knowledge

14. When a corporation's shares are owned by a few individuals who are associated with the firm's management, we say that the stock is closely held.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-5 The Market for Common Stock
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.05 - The Market for Common Stock
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Closely held stock
KEYWORDS:	Bloom's: Knowledge

15. A publicly owned corporation is a company whose shares are held by the investing public, which may include other corporations as well as institutional investors.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	EASY

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REFERENCES:	2-5 The Market for Common Stock
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.05 - The Market for Common Stock
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Public company
KEYWORDS:	Bloom's: Knowledge

16. If you wanted to know what rate of return stocks have provided in the past, you could examine data on the Dow Jones Industrial Index, the S&P 500 Index, or the NASDAQ Index.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-6 Stock Markets and Returns
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.06 - Stock Markets and Returns
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Stock market returns
KEYWORDS:	Bloom's: Knowledge

17. The annual rate of return on any given stock can be found as the stock's dividend for the year plus the change in the stock's price during the year, divided by its beginning-of-year price.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-6 Stock Markets and Returns
QUESTION TYPE:	True / False
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.06 - Stock Markets and Returns
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Stock market returns

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KEYWORDS: Bloom's: Comprehension

18. The annual rate of return on any given stock can be found as the stock's dividend for the year plus the change in the stock's price during the year, divided by its beginning-of-year price. If you obtain such data on a large portfolio of stocks, like those in the S&P 500, find the rate of return on each stock, and then average those returns, this would give you an idea of stock market returns for the year in question.

a. True

b. False

ANSWER: True
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-6 Stock Markets and Returns
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.06 - Stock Markets and Returns
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS: United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS: Stock market returns
KEYWORDS: Bloom's: Comprehension

19. Each stock's rate of return in a given year consists of a dividend yield (which might be zero) plus a capital gains yield (which could be positive, negative, or zero). Such returns are calculated for all the stocks in the S&P 500. A weighted average of those returns, using each stock's total market value, is then calculated, and that average return is often used as an indicator of the "return on the market."

a. True

b. False

ANSWER: True
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-6 Stock Markets and Returns
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.06 - Stock Markets and Returns
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS: United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS: Stock market returns
KEYWORDS: Bloom's: Comprehension

20. Each stock's rate of return in a given year consists of a dividend yield (which might be zero) plus a capital gains yield (which could be positive, negative, or zero). Such returns are calculated for all the stocks in the S&P 500. A simple average of those returns (which gives equal weight to each company in the S&P 500) is then calculated. That average is called "the return on the S&P Index," and it is often used as an indicator of the "return on the market."

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a. True
b. False

ANSWER: False
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-6 Stock Markets and Returns
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.06 - Stock Markets and Returns
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
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LOCAL STANDARDS: United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS: Stock market returns
KEYWORDS: Bloom's: Comprehension

Multiple Choice: Conceptual

21. You recently sold 100 shares of Microsoft stock to your brother at a family reunion. At the reunion your brother gave you a check for the stock and you gave your brother the stock certificates. Which of the following best describes this transaction?

a. This is an example of a direct transfer of capital.
b. This is an example of a primary market transaction.
c. This is an example of an exchange of physical assets.
d. This is an example of a money market transaction.
e. This is an example of a derivative market transaction.

ANSWER: a
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-1 The Capital Allocation Process
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.01 - The Capital Allocation Process
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS: United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS: Capital allocation
KEYWORDS: Bloom's: Comprehension
OTHER: Multiple Choice: Conceptual

22. Which of the following statements is CORRECT?

a. The NYSE does not exist as a physical location. Rather it represents a loose collection of dealers who trade stock electronically.

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b. An example of a primary market transaction would be your uncle transferring 100 shares of Walmart stock to you as a birthday gift.
c. Capital market instruments include both long-term debt and common stocks.
d. If your uncle in New York sold 100 shares of Microsoft through his broker to an investor in Los Angeles, this would be a primary market transaction.
e. While the two frequently perform similar functions, investment banks generally specialize in lending money, whereas commercial banks generally help companies raise large blocks of capital from investors.

ANSWER: c
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-2 Financial Markets
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.02 - Financial Markets
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
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LOCAL STANDARDS: United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS: Financial markets
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

23. Which of the following is a primary market transaction?
a. You sell 200 shares of IBM stock on the NYSE through your broker.
b. You buy 200 shares of IBM stock from your brother. The trade is not made through a broker; you just give him cash and he gives you the stock.
c. IBM issues 2,000,000 shares of new stock and sells them to the public through an investment banker.
d. One financial institution buys 200,000 shares of IBM stock from another institution. An investment banker arranges the transaction.
e. IBM sells 2,000,000 shares of treasury stock to its employees when they exercise options that were granted in prior years.

ANSWER: c
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-2 Financial Markets
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.02 - Financial Markets
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LOCAL STANDARDS: United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS: Financial markets
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

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24. Which of the following is an example of a capital market instrument?
    a. Commercial paper.
    b. Preferred stock.
    c. U.S. Treasury bills.
    d. Banker's acceptances.
    e. Money market mutual funds.

ANSWER:	b
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-2 Financial Markets
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.02 - Financial Markets
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LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Capital market instruments
KEYWORDS:	Bloom's: Knowledge
OTHER:	Multiple Choice: Conceptual

25. Money markets are markets for
    a. Foreign currencies.
    b. Consumer automobile loans.
    c. Common stocks.
    d. Long-term bonds.
    e. Short-term debt securities such as Treasury bills and commercial paper.

ANSWER:	e
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-2 Financial Markets
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.02 - Financial Markets
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
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LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Money markets
KEYWORDS:	Bloom's: Knowledge
OTHER:	Multiple Choice: Conceptual

26. Which of the following statements is CORRECT?

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a. If you purchase 100 shares of Disney stock from your brother-in-law, this is an example of a primary market transaction.
b. If Disney issues additional shares of common stock through an investment banker, this would be a secondary market transaction.
c. The NYSE is an example of an over-the-counter market.
d. Only institutions, and not individuals, can engage in derivative market transactions.
e. As they are generally defined, money market transactions involve debt securities with maturities of less than one year.

ANSWER:	e
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-2 Financial Markets
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.02 - Financial Markets
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Financial market transactions
KEYWORDS:	Bloom's: Knowledge
OTHER:	Multiple Choice: Conceptual

27. You recently sold 200 shares of Disney stock, and the transfer was made through a broker. This is an example of:
a. A money market transaction.
b. A primary market transaction.
c. A secondary market transaction.
d. A futures market transaction.
e. An over-the-counter market transaction.

ANSWER:	c
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-2 Financial Markets
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.02 - Financial Markets
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Financial market transactions
KEYWORDS:	Bloom's: Knowledge
OTHER:	Multiple Choice: Conceptual

28. Which of the following statements is CORRECT?

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a. Hedge funds are legal in Europe and Asia, but they are not permitted to operate in the United States.
b. Hedge funds are legal in the United States, but they are not permitted to operate in Europe or Asia.
c. Hedge funds have more in common with investment banks than with any other type of financial institution.
d. Hedge funds have more in common with commercial banks than with any other type of financial institution.
e. Hedge funds are not as highly regulated as most other types of financial institutions. The justification for this light regulation is that only "sophisticated" investors (i.e., those with high net worths and high incomes) are permitted to invest in these funds, and these investors supposedly can do any necessary "due diligence" on their own rather than have it done by the SEC or some other regulator.

ANSWER: e
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-3 Financial Institutions
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.03 - Financial Institutions
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS: United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS: Hedge funds
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

29. Which of the following statements is CORRECT?
a. While the distinctions are becoming blurred, investment banks generally specialize in lending money, whereas commercial banks generally help companies raise capital from other parties.
b. The NYSE operates as an auction market, whereas NASDAQ is an example of a dealer market.
c. Money market mutual funds usually invest their money in a well-diversified portfolio of liquid common stocks.
d. Money markets are markets for long-term debt and common stocks.
e. A liquid security is a security whose value is derived from the price of some other "underlying" asset.

ANSWER: b
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-4 The Stock Market
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.04 - The Stock Market
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS: United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS: Financial makets and institutions
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

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30. Which of the following statements is CORRECT?
    a. The New York Stock Exchange is an auction market, and it has a physical location.
    b. Home mortgage loans are traded in the money market.
    c. If an investor sells shares of stock through a broker, then it would be a primary market transaction.
    d. Capital markets deal only with common stocks and other equity securities.
    e. While the distinctions are blurring, investment banks generally specialize in lending money, whereas commercial banks generally help companies raise capital from other parties.

ANSWER:	a
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-4 The Stock Market
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.04 - The Stock Market
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Financial markets
KEYWORDS:	Bloom's: Knowledge
OTHER:	Multiple Choice: Conceptual

31. Which of the following statements is CORRECT?
    a. The term "IPO" stands for Introductory Price Offered, and it is the price at which shares of a new company are offered to the public.
    b. IPO prices are generally established by the market, and buyers of the new stock must pay the price that prevails at the close of trading on the day the stock is offered to the public.
    c. In a "Dutch auction," investors who want to buy shares in an IPO submit bids indicating how many shares they want to buy and the price they are willing to pay. The company determines how many shares it wants to sell. The highest price that enables the company to sell the desired number of shares is the price that all buyers must pay.
    d. It is possible that the price set in an IPO is so high that investors will refuse to buy the number of shares that the company wants to sell. In this situation, the IPO is said to be oversubscribed.
    e. It is possible that the price set in an IPO is so low that investors will want to buy more shares than the company wants to sell. In that case, the company will have to issue more shares than it wants to sell.

ANSWER:	c
POINTS:	1
DIFFICULTY:	EASY
REFERENCES:	2-5 The Market for Common Stock
QUESTION TYPE:	Multiple Choice
HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.05 - The Market for Common Stock
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates

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LOCAL STANDARDS: United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS: IPOs
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

32. Which of the following statements is CORRECT?
    a. The most important difference between spot markets versus futures markets is the maturity of the instruments that are traded. Spot market transactions involve securities that have maturities of less than one year whereas futures markets transactions involve securities with maturities greater than one year.
    b. Capital market transactions involve only preferred stock or common stock.
    c. If General Electric were to issue new stock this year, this would be considered a secondary market transaction since the company already has stock outstanding.
    d. Both NASDAQ dealers and "specialists" on the NYSE hold inventories of stocks.
    e. Money market transactions do not involve securities denominated in currencies other than the U.S. dollar.

ANSWER: d
POINTS: 1
DIFFICULTY: MODERATE
REFERENCES: 2-4 The Stock Market
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.17.02.04 - The Stock Market
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS: United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS: Financial markets
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

33. Which of the following statements is NOT CORRECT?
    a. When a corporation's shares are owned by a few individuals, we say that the firm is "closely, or privately, held."
    b. "Going public" establishes a firm's true intrinsic value and ensures that a liquid market will always exist for the firm's shares.
    c. The stock of publicly owned companies must generally be registered with and reported to a regulatory agency such as the SEC.
    d. When stock in a closely held corporation is offered to the public for the first time, the transaction is called "going public, or an IPO," and the market for such stock is called the new issue or IPO market.
    e. It is possible for a firm to go public and yet not raise any additional new capital for the firm itself.

ANSWER: b
POINTS: 1
DIFFICULTY: CHALLENGING
REFERENCES: 2-5 The Market for Common Stock
QUESTION TYPE: Multiple Choice

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HAS VARIABLES:	False
LEARNING OBJECTIVES:	FOFM.BRIG.17.02.05 - The Market for Common Stock
NATIONAL STANDARDS:	United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking
STATE STANDARDS:	United States - OH - DISC.FOFM.BRIG.17.02 - Financial markets and interest rates
LOCAL STANDARDS:	United States - OH - Default City - N/A - Since we still do not have the Cengage Business School Outcomes, you do not need to include anything for this category.
TOPICS:	Ownership and going public
KEYWORDS:	Bloom's: Knowledge
OTHER:	Multiple Choice: Conceptual

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Web App 5A

1. If you receive $15,000 today and can invest it at a 4.25% annual rate compounded continuously, what will be your ending value after 20 years?

a. $41,060.80
b. $43,517.43
c. $35,094.70
d. $28,426.71
e. $36,849.44

ANSWER: c

FEEDBACK:

a.

N	20
PV =	$15,000.00
I	4.25%
I N	0.8500
FV =	$PV(e^{in})$
FV =	$35,094.70

b.
c.
d.
e.

POINTS: 1
DIFFICULTY: MODERATE
REFERENCES: 5A Continuous Compounding and Discounting
QUESTION TYPE: Multiple Choice
HAS VARIABLES: True
LEARNING OBJECTIVES: FOFM.BRIG.17.05.05A - Continuous Compounding and Discounting
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.03 - BUSPROG: Analytic
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.04 - Time value of money
LOCAL STANDARDS: United States - OH - Default City - Tier 2: - Capital structure
TOPICS: FV, continuous compounding
KEYWORDS: Bloom's: Application
OTHER: Multiple Choice: Problem

2. In six years' time, you are scheduled to receive money from a trust established by your grandparents. When the trust matures there will be $100,000 in the account. If the account earns 5.75% compounded continuously, how much is in the account today?

a. $82,153.56
b. $69,405.59
c. $61,615.17
d. $70,822.04
e. $59,490.51

ANSWER: d

FEEDBACK:

a.

N	6
FV	$100,000
I	5.75%

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$I \times N$ 0.3450

PV = $FV/(e^{in})$

PV = $70,822.04

b.

c.

d.

e.

POINTS: 1

DIFFICULTY: MODERATE

REFERENCES: 5A Continuous Compounding and Discounting

QUESTION TYPE: Multiple Choice

HAS VARIABLES: True

LEARNING OBJECTIVES: FOFM.BRIG.17.05.05A - Continuous Compounding and Discounting

NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.03 - BUSPROG: Analytic

STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.04 - Time value of money

LOCAL STANDARDS: United States - OH - Default City - Tier 2: - Capital structure

TOPICS: PV, continuous discounting

KEYWORDS: Bloom's: Application

OTHER: Multiple Choice: Problem

3. Assume one bank offers you a nominal annual interest rate of 6% compounded daily while another bank offers you continuous compounding at a 5.9% nominal annual rate. You decide to deposit $1,050 with each bank. Exactly two years later you withdraw your funds from both banks. What is the difference in your withdrawal amounts between the two banks? Assume 365 days in a year. Do not round your intermediate calculations

a. $1.77

b. $2.24

c. $2.35

d. $2.71

e. $2.94

ANSWER: c

FEEDBACK:

a. N 2

PV $1,050

I_{NOM} 6.00%

M 365

5.90%

$\times$ $\times$ N 0.1180

Daily compounding:

FV = $PV \times (1 + I_{NOM}/M)^{M \times N}$

FV_{Daily}= $1,183.860

Continuous compounding:

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FV = $PV \times (e^{in})$

$FV_{Continuous}$ = $1,181.506

Difference = $2.35

b.

c.

d.

e.

POINTS: 1
DIFFICULTY: MODERATE
REFERENCES: 5A Continuous Compounding and Discounting
QUESTION TYPE: Multiple Choice
HAS VARIABLES: True
LEARNING OBJECTIVES: FOFM.BRIG.17.05.05A - Continuous Compounding and Discounting
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.03 - BUSPROG: Analytic
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.04 - Time value of money
LOCAL STANDARDS: United States - OH - Default City - Tier 2: - Capital structure
TOPICS: FV, continuous compounding
KEYWORDS: Bloom's: Evaluation
OTHER: Multiple Choice: Problem

4. You have $5,436.60 in an account that pays 9.40% interest, compounded continuously. If you deposited some funds 12 years ago, how much was your original deposit? Round your answer to the nearest dollar.

a. $1,637
b. $1,760
c. $1,566
d. $2,006
e. $1,461

ANSWER: b
FEEDBACK:

a.

N	12
FV	$5,436.60
I	9.40%
$I \times N$	1.1280
PV =	$FV/(e^{in})$
PV =	$1,759.72

b.

c.

d.

e.

POINTS: 1
DIFFICULTY: MODERATE

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REFERENCES: 5A Continuous Compounding and Discounting
QUESTION TYPE: Multiple Choice
HAS VARIABLES: True
LEARNING OBJECTIVES: FOFM.BRIG.17.05.05A - Continuous Compounding and Discounting
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.03 - BUSPROG: Analytic
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.04 - Time value of money
LOCAL STANDARDS: United States - OH - Default City - Tier 2: - Capital structure
TOPICS: PV, continuous discounting
KEYWORDS: Bloom's: Application
OTHER: Multiple Choice: Problem

5. How much should you be willing to pay for an account today that will have a value of $1,000 in 24 years under continuous compounding if the nominal rate is 8.20%?

a. $111.79
b. $139.74
c. $156.50
d. $171.88
e. $167.68

ANSWER: b

FEEDBACK:

a.

N	24
FV	$1,000.00
I	8.20%
I x N	1.9680
PV =	FV/(e^{in})
PV =	$139.74

b.
c.
d.
e.

POINTS: 1
DIFFICULTY: MODERATE
REFERENCES: 5A Continuous Compounding and Discounting
QUESTION TYPE: Multiple Choice
HAS VARIABLES: True
LEARNING OBJECTIVES: FOFM.BRIG.17.05.05A - Continuous Compounding and Discounting
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.03 - BUSPROG: Analytic
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.04 - Time value of money
LOCAL STANDARDS: United States - OH - Default City - Tier 2: - Capital structure
TOPICS: PV, continuous discounting
KEYWORDS: Bloom's: Evaluation
OTHER: Multiple Choice: Problem

6. You need a down payment of $17,200 in order to purchase your first home 4 years from today. You currently have

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$14,014 to invest. In order to achieve your goal, what nominal interest rate, compounded continuously, must you earn on this investment? Do not round your intermediate calculations.

a. 5.48%
b. 5.12%
c. 3.84%
d. 4.46%
e. 6.20%

ANSWER: b

FEEDBACK:

a.

N		4
PV		$14,014
FV		$17,200
FV =	PV (e^in)	
e^in =	1.22734	
4i ln e =	ln1.22734	
4i	=	0.2049
i	=	5.12%

b.
c.
d.
e.

POINTS: 1
DIFFICULTY: CHALLENGING
REFERENCES: 5A Continuous Compounding and Discounting
QUESTION TYPE: Multiple Choice
HAS VARIABLES: True
LEARNING OBJECTIVES: FOFM.BRIG.17.05.05A - Continuous Compounding and Discounting
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.03 - BUSPROG: Analytic
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.04 - Time value of money
LOCAL STANDARDS: United States - OH - Default City - Tier 2: - Capital structure
TOPICS: Continuous compounded int. rate
KEYWORDS: Bloom's: Application
OTHER: Multiple Choice: Problem

7. You place $1,000 in an account that pays 7% interest compounded continuously. You plan to hold the account exactly 3 years. Simultaneously, in another account you deposit money that earns 7.40% compounded semiannually. If the accounts are to have the same amount at the end of the 3 years, how much of an initial deposit do you need to make now in the account that pays 7.40% interest compounded semiannually? Do not round your intermediate calculations.

a. $1,150.77
b. $882.92
c. $992.04
d. $1,220.21
e. $744.03

ANSWER: c

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FEEDBACK:

a.

N	3
PV	$1,000
I_{NOM}	7.00%
M	2
$I_{Continuous}$	7.40%
$I_{Cont} \times N$	0.2100

Continuous compounding:

$FV = PV \times (e^{in})$

$FV_{Continuous} = \$1,233.68$

Now, calculate the initial deposit:

N	6
I/YR	3.70%
PMT	0
FV	$1,233.68
PV	$992.04

b.

c.

d.

e.

POINTS: 1
DIFFICULTY: CHALLENGING
REFERENCES: 5A Continuous Compounding and Discounting
QUESTION TYPE: Multiple Choice
HAS VARIABLES: True
LEARNING OBJECTIVES: FOFM.BRIG.17.05.05A - Continuous Compounding and Discounting
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.03 - BUSPROG: Analytic
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.04 - Time value of money
LOCAL STANDARDS: United States - OH - Default City - Tier 2: - Capital structure
TOPICS: Cont. and semiann. comp.
KEYWORDS: Bloom's: Application
OTHER: Multiple Choice: Problem

8. For a 10-year deposit, what annual rate payable semiannually will produce the same effective rate as 5.00% compounded continuously? Do not round your intermediate calculations.

a. 4.46%
b. 5.06%
c. 4.10%
d. 4.81%
e. 4.91%

ANSWER: b

FEEDBACK:

a. N 10

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M	2
$I_{Continuous}$	5.00%
$I_{Cont} \times N$	0.5000

Continuous compounding:

e^{in}	$= (1+I_{NOM}/M)^{NM}$
$e^{0.5000}$	$= (1+I_{NOM}/2)^{20}$
$e^{0.0250}$	$= 1+I_{NOM}/2$
1.02531512	$= 1+I_{NOM}/2$
0.02531512	$= I_{NOM}/2$
I_{NOM}	= 5.06%

b.

c.

d.

e.

POINTS: 1
DIFFICULTY: CHALLENGING
REFERENCES: 5A Continuous Compounding and Discounting
QUESTION TYPE: Multiple Choice
HAS VARIABLES: True
LEARNING OBJECTIVES: FOFM.BRIG.17.05.05A - Continuous Compounding and Discounting
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.03 - BUSPROG: Analytic
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.04 - Time value of money
LOCAL STANDARDS: United States - OH - Default City - Tier 2: - Capital structure
TOPICS: Cont. compounding and nom. rate
KEYWORDS: Bloom's: Analysis
OTHER: Multiple Choice: Problem

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