

***Fundamentals of Investing, 14e (Smart/Zutter)***  
**Chapter 1 The Investment Environment**

1.1 Learning Goal 1

1) A non-interest bearing checking account is still considered an investment.

Answer: FALSE

Learning Outcome: F-12 Discuss the implications of systematic risk in financial markets and its role in shaping investment choices

AACSB: Analytical thinking

Question Status: Previous Edition

Learning Goal: Learning Goal 1

2) Land and buildings are examples of real property investments.

Answer: TRUE

Learning Outcome: F-12 Discuss the implications of systematic risk in financial markets and its role in shaping investment choices

AACSB: Analytical thinking

Question Status: Previous Edition

Learning Goal: Learning Goal 1

3) Since 1900, the average return on stocks has exceeded the average return on savings accounts by more than 6 percentage points.

Answer: TRUE

Learning Outcome: F-12 Discuss the implications of systematic risk in financial markets and its role in shaping investment choices

AACSB: Analytical thinking

Question Status: Previous Edition

Learning Goal: Learning Goal 1

4) A United States Savings Bond is an example of an investment as defined in the text.

Answer: TRUE

Learning Outcome: F-12 Discuss the implications of systematic risk in financial markets and its role in shaping investment choices

AACSB: Analytical thinking

Question Status: Previous Edition

Learning Goal: Learning Goal 1

5) Most sources of investment information are in print format, expensive, and difficult to access.

Answer: FALSE

Learning Outcome: F-12 Discuss the implications of systematic risk in financial markets and its role in shaping investment choices

AACSB: Analytical thinking

Question Status: Previous Edition

Learning Goal: Learning Goal 1

6) Which of the following is NOT an investment as defined in the text?

- A) a certificate of deposit issued by a bank
- B) a new automobile
- C) a United States Saving Bond
- D) a mutual fund held in a retirement account

Answer: B

Learning Outcome: F-12 Discuss the implications of systematic risk in financial markets and its role in shaping investment choices

AACSB: Analytical thinking

Question Status: Previous Edition

Learning Goal: Learning Goal 1

7) Stocks are a(n) \_\_\_\_\_ investment representing \_\_\_\_\_ of a business.

- A) direct; ownership
- B) direct; debt
- C) indirect; ownership
- D) indirect; debt

Answer: A

Learning Outcome: F-12 Discuss the implications of systematic risk in financial markets and its role in shaping investment choices

AACSB: Analytical thinking

Question Status: Previous Edition

Learning Goal: Learning Goal 1

8) An exchange traded fund that invests in the stocks of large corporations is an example of

- A) direct investment.
- B) indirect investment.
- C) derivative investment.
- D) tangible investment.

Answer: B

Learning Outcome: F-12 Discuss the implications of systematic risk in financial markets and its role in shaping investment choices

AACSB: Analytical thinking

Question Status: Previous Edition

Learning Goal: Learning Goal 1

9) Which of the following has declined in recent years?

- A) direct ownership of stock by individual investors
- B) the percentage of foreign stocks held in typical portfolios
- C) institutional ownership of common stocks
- D) the timeliness of information available to investors

Answer: A

Learning Outcome: F-12 Discuss the implications of systematic risk in financial markets and its role in shaping investment choices

AACSB: Analytical thinking

Question Status: Previous Edition

Learning Goal: Learning Goal 1

- 10) Which of the following has increased in recent years?
- A) direct ownership of stock by individual investors
  - B) the percentage of domestic stocks held in typical portfolios
  - C) institutional ownership of common stocks
  - D) indirect ownership of stocks through mutual funds and ETFs.

Answer: D

Learning Outcome: F-12 Discuss the implications of systematic risk in financial markets and its role in shaping investment choices

AACSB: Analytical thinking

Question Status: New Question

Learning Goal: Learning Goal 1

- 11) Debt represents funds loaned in exchange for
- A) dividend income and the repayment of the loan principal.
  - B) dividend income and an ownership interest in the firm.
  - C) interest income and a partial ownership interest in the firm.
  - D) interest income and the repayment of the loan principal.

Answer: D

Learning Outcome: F-12 Discuss the implications of systematic risk in financial markets and its role in shaping investment choices

AACSB: Analytical thinking

Question Status: Previous Edition

Learning Goal: Learning Goal 1

## 1.2 Learning Goal 2

- 1) Institutional investors manage money for businesses and nonprofit organizations, but not for individuals.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 2

- 2) Institutional investors are individuals who invest indirectly through financial institutions.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 2

3) Banks and insurance companies are examples of institutional investors.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 2

4) In the financial markets, individuals are net suppliers of funds.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Revised

Learning Goal: Learning Goal 2

5) The government is generally

A) not involved in the financial markets.

B) the owner of the financial market.

C) a supplier of funds to the financial market.

D) a demander of funds in the financial market.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 2

6) On a net basis, funds in the financial markets are generally supplied by

A) individuals.

B) both individuals and business firms.

C) business firms.

D) the government.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 2

7) Stocks of large publicly traded companies are

- A) rarely traded.
- B) illiquid.
- C) rarely decline in value.
- D) highly liquid.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 2

8) Which of the following are true concerning institutional investors?

- I. Institutional investors are professionals who manage money for other people.
- II. Banks, insurance companies and mutual funds are all institutional investors.
- III. Institutional investors are individuals who invest indirectly through financial institutions.
- IV. Institutional investors invest large sums of money.

- A) I and II only
- B) I, II and IV only
- C) II, III and IV only
- D) I, II, III and IV

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 2

9) Which of the following is NOT traded in the securities markets?

- A) stocks
- B) bonds
- C) derivatives
- D) real estate

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 2

10) Describe the major differences between individual and institutional investors.

Answer: Individual investors manage their own funds to achieve individual goals such as increasing financial security or financing a comfortable retirement. Institutional investors such as mutual funds and insurance companies manage funds for individuals who lack the time or expertise to invest individually and for other institutions such as universities or charities.

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 2

### 1.3 Learning Goal 3

1) Bond investors lend their money for a fixed period of time and receive interest.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3

2) A collection of securities designed to meet an investment goal is called a portfolio.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3

3) Call options on common stock are a form of equity.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 3

4) An option to purchase common stock is a type of derivative security.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3

5) Bonds represent a lower level of risk than do stocks in the same company.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3

6) Exchange traded funds are similar to mutual funds, but are traded like stocks.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3

7) Mutual funds invest in diversified portfolios of securities.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3

8) Bond prices rise as interest rates decline.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3

9) Bond interest and stock dividends are different ways of distributing a corporation's earnings to its owners.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3

10) Which of the following is an example of a tangible asset?

- A) bonds
- B) mutual funds
- C) real estate
- D) stocks

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3

11) Which one of the following would be the least liquid investment?

- A) stock
- B) put options
- C) money market mutual fund
- D) real estate

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Revised

Learning Goal: Learning Goal 3

12) Which of the following investments represents partial ownership of a corporation?

- A) bonds
- B) mutual funds
- C) commercial paper
- D) common stock

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3



13) Investors seeking a diversified, professionally managed portfolio of securities can purchase shares of

- A) preferred stock.
- B) convertible securities.
- C) insurance policies.
- D) mutual funds.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3

14) The major difference between mutual funds and exchange traded funds (ETFs) is

- A) ETFs can be bought or sold at their current price at any time during normal trading hours.
- B) mutual fund portfolios are always based on one of the major market indexes.
- C) ETFs invest in broadly diversified portfolios of securities.
- D) ETFs are actively managed.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 3

15) Briefly describe three advantages of investing in mutual funds or exchange traded funds.

Answer: The investor does not need to spend a great deal of time researching individual securities. Small investors easily achieve diversification by investing indirectly in a broad portfolio of securities. The funds are managed by professionals who presumably have expertise in making investment decisions.

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 3

16) One reason that passively managed mutual funds have grown in popularity relative to actively managed mutual funds is that

- A) passive fund expense ratios are lower.
- B) passive fund returns are always higher.
- C) active funds are too diverse.
- D) none of these

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 3

17) Over the past decade, passively managed index funds have

- A) grown quite a lot.
- B) declined in popularity.
- C) attracted almost 100% of investment dollars.
- D) almost disappeared as a fund type.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 3

#### 1.4 Learning Goal 4

1) Earning a high rate of return with little or no risk is a realistic investment goal.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

2) Under current tax laws, most taxpayers will pay a lower tax rate on capital gains than on dividends.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

3) Investors can postpone or avoid income taxes by investing through Individual Retirement Accounts.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

4) Under current laws, a couple filing jointly with a total income of \$75,000 would pay a 15% tax on capital gains.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 4

5) To qualify for long-term capital gains rates, a stock must be held for at least 12 months.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

6) Retirement plans, such as a 401(k), allow employees to defer taxes on the plan contributions until such time as the funds are withdrawn from the retirement plan.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

7) Contributions to a Roth IRA are taxed up front, but subsequent earnings and withdrawals are tax free.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 4

8) Which of the following represent investment goals?

- I. saving for major expenditures such as a house or education
- II. sheltering income from taxes
- III. increasing current income
- IV. saving funds for retirement

- A) I and IV only
- B) III and IV only
- C) I, III and IV only
- D) I, II, III and IV

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

9) In selecting investments consistent with your goals, you should consider

- A) rates of return and taxes only.
- B) the pre-tax rate of return only.
- C) annual dividends and taxes only.
- D) risks, returns, and taxes.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

10) Alexandra purchased a stock one year ago at a price of \$64 a share. In the past year, she has received four quarterly dividends of \$1.50 each. Today she sold the stock for \$76 a share. Her capital gain per share is

- A) \$6.00.
- B) \$12.00.
- C) \$(6.00).
- D) \$18.00.

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Revised

Learning Goal: Learning Goal 4

11) A well-conceived investment policy statement will take into account

- A) the investor's current age and economic situation.
- B) the investor's preference for frequent or infrequent trading.
- C) the types of investments the investor is willing to consider.
- D) all of the above.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Revised

Learning Goal: Learning Goal 4

12) Beginning investors with small amounts to invest should

- A) avoid stock investments completely.
- B) invest all of their money in one high quality stock.
- C) buy mutual funds or exchange traded funds (ETFs).
- D) buy a portfolio of very low priced stocks (penny stocks).

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

13) Research indicates that investors who monitor their portfolios less frequently

- A) outperform those who hold investments for the long-term and trade infrequently.
- B) tend to invest in riskier assets.
- C) earn rates of return similar to those who hold investments for the long-term and trade infrequently.
- D) are more highly educated and in higher income brackets than those who hold investments for the long term and trade infrequently.

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

<b>Table 1.2</b>	<b>2018 (due April 15, 2019)</b>	
<b>Tax rates</b>	<b>Individual Returns</b>	<b>Joint Returns</b>
10%	\$0 to \$9,525	\$0 to \$19,050
12%	\$9,526 to \$38,700	\$19,051 to \$77,400
22%	\$38,701 to \$82,500	\$77,401 to \$165,000
24%	\$82,501 to \$157,500	\$165,001 to \$315,000
32%	\$157,501 to \$200,000	\$315,001 to \$400,000
35%	\$200,001 to \$500,000	\$400,001 to \$600,000
37%	Over \$500,000	Over \$600,000

14) In 2018, Jordan and Kailey earned a combined taxable income of \$148,800 from employment plus \$1,000 in long term capital gains and they file a joint tax return. What is their total federal income tax? Round to the nearest dollar.

- A) \$33,780
- B) \$29,063
- C) \$24,765
- D) \$24,659

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Revised

Learning Goal: Learning Goal 4

15) Jon earned \$82,500 in taxable income, all from wages and interest, and files an individual tax return. What is the amount of Josh's taxes for the year 2018? Round to the nearest dollar.

- A) \$13,750
- B) \$14,090
- C) \$18,150
- D) \$12,285

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Revised

Learning Goal: Learning Goal 4

16) For a taxpayer in the 22% marginal tax bracket, a long-term capital gain realized in 2018 will be taxed at

- A) 5%.
- B) 10%.
- C) 15%.
- D) 25%.

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Revised

Learning Goal: Learning Goal 4

17) Andrew and Jennifer are in the 22% marginal tax bracket. Three years ago they purchased 100 shares of stock at \$20 a share. In 2018, they sold the 100 shares for \$29 a share. What is the amount of federal income tax they owe as a result of this sale?

- A) \$135
- B) \$165
- C) \$225
- D) \$435

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

18) Michelle and Patrick are in the 24% marginal tax bracket. They bought 100 shares of DJN stock at \$45 per share and sold them 4 years later in 2018 at \$22 per share? By how much did their loss reduce their taxes in the year when they sold the stock?

- A) \$0
- B) \$345
- C) \$552
- D) \$1,260

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

19) Both the holding period to qualify and the tax rate on long-term capital gains

A) are subject to political pressure and occasionally change.

B) are very stable and have not changed since the 1960s.

C) are phased out on incomes over \$388,351.

D) are adjusted for inflation every year.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

20) Tax planning

A) guides investment activities to maximize after-tax returns over the long term for an acceptable level of risk.

B) ignores the source of income and concentrates solely on the amount of income.

C) is primarily done by individuals with incomes below \$200,000.

D) is limited to reviewing income for the current year and determining how to minimize current taxes.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

21) Because Doug lost his job in 2018, his income was only \$27,000. To make ends meet, he sold stock and realized capital gains of \$5,000. Doug is single and files as an individual. The tax on his capital gains will be

A) \$0.

B) \$600.

C) \$750.

D) \$1,000.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 4



22) Investors seeking to increase their wealth as quickly as possible would invest in

- A) corporate bonds and preferred stock.
- B) large company stocks with high dividends.
- C) smaller companies pursuing rapid growth.
- D) government bonds and low-risk income stocks.

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

23) Discuss the relationship between stock prices and investors' beliefs about the business cycle.

Answer: Stock prices tend to anticipate the economic conditions that investors expect in the future. When they believe that economic conditions will deteriorate and profits will decline, stock prices fall. When they expect an improving economy and higher corporate profits, stock prices rise.

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

24) What are some of the important prerequisites to investing?

Answer: Before entering into risky investments, individuals need to provide for the necessities of life such as housing, transportation, and taxes. They should have liquid assets available to meet unforeseen emergencies such as job loss, auto repairs or dental treatments. They should also have insurance for catastrophic events involving health or property.

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

25) Discuss the general investment philosophy and the types of investments preferred by investors in each phase of the life cycle.

Answer:

<b>Life Cycle Phase</b>	<b>Philosophy</b>	<b>Types of Investments</b>
Young investors	Growth	Growth stocks, options, and futures
Middle-aged investors	Growth and income	Higher quality stocks, preferred stocks, convertibles, high-grade bonds, and mutual funds
Retired investors	Preservation of capital and current income	Low risk stocks, short-term bonds, certificates of deposit

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 4

26) A person's marginal tax rate is the rate they pay

A) on the next dollar of income.

B) on all income.

C) only on investment income.

D) only on earned income.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 4

27) The average tax rate is the rate a person pays on their next dollar of income.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 4

28) During which period are stock returns typically the lowest?

- A) 6 months before a recession
- B) during a recession
- C) 12 months after a recession
- D) there is no discernable pattern

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 4

### 1.5 Learning Goal 5

1) U.S. Treasury Bills mature in 1 year or less.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 5

2) Liquidity is the ability to convert an investment into cash quickly with little or no loss of value.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 5

3) Short-term investments generally provide liquidity, safety, and a high rate of return.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 5

4) Money market accounts, certificates of deposit, bonds and commercial paper are all forms of short-term investment vehicles.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 5

5) The primary risk associated with a short-term investment is

- A) purchasing power risk.
- B) default risk.
- C) interest rate risk.
- D) economic risk.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 5

6) Short-term investments

- I. provide liquidity.
- II. fill an important part of most investment programs.
- III. provide a high rate of return with low risk.
- IV. provide resources for emergencies.

- A) I and IV only
- B) II and IV only
- C) I, II and IV only
- D) I, II, III and IV

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 5

7) Federal insurance protects passbook savings accounts and money market deposit accounts (MMDAs) up to

- A) \$100,000.
- B) \$150,000.
- C) \$250,000.
- D) \$1,000,000.

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 5

8) The amount protected by the Federal Deposit Insurance Corporation in non-interest bearing checking accounts is

- A) zero.
- B) \$100,000.
- C) unlimited.
- D) \$250,000.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Revised

Learning Goal: Learning Goal 5

9) Since 2010, the interest rate on passbook accounts and certificates of deposit has

- A) been less than the average rate of inflation.
- B) closely tracked the average rate of inflation.
- C) exceeded the average rate of inflation by 1.5%.
- D) fluctuated widely.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 5

10) Which one of the following has the lowest level of risk?

- A) commercial paper
- B) money market mutual fund account
- C) banker's acceptance
- D) U.S. Treasury bill

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 5

## 1.6 Learning Goal 6

1) Certified Financial Planners typically manage institutional portfolios.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: Previous Edition

Learning Goal: Learning Goal 6

2) A major goal of corporate financial management is to increase the value of the firm to investors.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

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Question Status: Previous Edition

Learning Goal: Learning Goal 6

3) Stringent regulations and vigorous enforcement have all but eliminated unethical behavior by financial professionals in recent years.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

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Question Status: Previous Edition

Learning Goal: Learning Goal 6

4) Insurance companies invest the premiums and fees collected from customers in order to neutralize the risks assumed from their clients.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

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Learning Goal: Learning Goal 6

5) Chartered Financial Analyst (CFA) is a degree offered by several prestigious business schools.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

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Question Status: Previous Edition

Learning Goal: Learning Goal 6

6) Funds that merely track a broad index and make no attempt to identify undervalued or exceptional growth stocks are known as

- A) hedge funds.
- B) passively managed funds.
- C) actively managed funds.
- D) equity funds.

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: Application of knowledge

Question Status: New Question

Learning Goal: Learning Goal 6

7) Jobs in which of the following fields require an understanding of the investment environment?

- I. commercial banking
- II. corporate finance
- III. financial planning
- IV. insurance

- A) I and IV only
- B) I, II and IV only
- C) II, III and IV only
- D) I, II, III and IV

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

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Learning Goal: Learning Goal 6

8) A major function of investment banking firms is

- A) assisting businesses when they issue stocks and bonds.
- B) providing financial planning services to wealthy individuals.
- C) developing investment strategies to neutralize risk.
- D) all of these are major functions of investment banking firms.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

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Learning Goal: Learning Goal 6

9) Which of the following has set an outstanding example of ethical behavior in the financial professions?

- A) Bernard Madoff of Madoff Securities
- B) Hank Greenberg of AIG
- C) Ramalinga Raju of Satyam Computers
- D) none of the above

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

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Learning Goal: Learning Goal 6

10) In the U.S., the most prestigious designation for financial planners is

- A) CFP.
- B) CPA.
- C) ING.
- D) SIPC.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

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Question Status: Previous Edition

Learning Goal: Learning Goal 6

11) Briefly describe three different career paths that require a strong background in investments.

Answer: Students may discuss any of the following career paths. Answers will vary.

Responsibilities of commercial bankers may include portfolio management, managing short-term securities, and advising individuals as personal bankers.

Corporate financial managers must raise external funds through the debt and equity markets, manage short-term investments, and understand investor expectations for their business.

Financial planners assist individuals in choosing the investments that will help them meet their short and long term goals.

The insurance industry employs professionals to invest and manage the large sums collected from premiums.

Within the investment management industry, professionals may work as securities analysts, fund managers, or retail brokers.

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Learning Goal: Learning Goal 6