

**Test Bank for Financial Markets and Institutions 11th Edition Jeff by Madura ISBN
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Chapter 1—Role of Financial Markets and Institutions

1. Financial market participants who provide funds are called

a.	deficit units.
b.	surplus units.
c.	primary units.
d.	secondary units.

ANS: B PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.01
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

2. The main provider(s) of funds to the U.S. Treasury is (are)

a.	households and businesses.
b.	foreign financial institutions.
c.	the Federal Reserve System.
d.	foreign nonfinancial sectors.

ANS: A PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.01
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

3. The largest deficit unit is (are)

a.	households and businesses.
b.	foreign financial institutions.
c.	the U.S. Treasury.
d.	foreign nonfinancial sectors.

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4. Those financial markets that facilitate the flow of short-term funds are known as

a.	money markets.
b.	capital markets.
c.	primary markets.
d.	secondary markets.

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KEY: Bloom's: Knowledge

5. Funds are provided to the initial issuer of securities in the

a.	secondary market.
b.	primary market.
c.	deficit market.
d.	surplus market.

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KEY: Bloom's: Knowledge

6. Which of the following is a capital market instrument?

a.	a six-month CD
b.	a three-month Treasury bill
c.	a ten-year bond
d.	an agreement for a bank to loan funds directly to a company for nine months

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7. Which of the following is a money market security?

a.	Treasury note
b.	municipal bond
c.	mortgage
d.	commercial paper

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KEY: Bloom's: Comprehension

8. The creditors in the federal funds market are

a.	households.
b.	depository institutions.
c.	firms.
d.	government agencies.

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KEY: Bloom's: Knowledge

9. Equity securities have a ____ expected return than most long-term debt securities, and they exhibit a ____ degree of risk.

a.	higher; higher
b.	lower; lower
c.	lower; higher
d.	higher; lower

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KEY: Bloom's: Comprehension

10. Money market securities generally have _____. Capital market securities are typically expected to have a _____.

a.	less liquidity; higher annualized return
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b.	more liquidity; lower annualized return
c.	less liquidity; lower annualized return
d.	more liquidity; higher annualized return

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11. If security prices fully reflect all available information, the markets for these securities are

a.	efficient.
b.	primary.
c.	overvalued.
d.	undervalued.

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 KEY: Bloom's: Knowledge

12. If markets are_____, investors could use available information ignored by the market to earn abnormally high returns.

a.	perfect
b.	active
c.	inefficient
d.	in equilibrium

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13. If financial markets are efficient, this implies that all securities should earn the same return.

- a. True
- b. False

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14. The Securities Act of 1933

a.	required complete disclosure of relevant financial information for publicly offered securities in the primary market.
b.	declared trading strategies to manipulate the prices of public secondary securities illegal.
c.	declared misleading financial statements for public primary securities illegal.
d.	required complete disclosure of relevant financial information for securities traded in the secondary market.
e.	all of the above

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 KEY: Bloom's: Knowledge

15. The Securities Exchange Commission (SEC) was established by the

a.	Federal Reserve Act.
b.	McFadden Act.

c.	Securities Exchange Act of 1934.
d.	Glass-Steagall Act.
e.	none of the above

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16. Common stock is an example of a(n)

a.	debt security.
b.	money market security.
c.	equity security.
d.	A and B

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 KEY: Bloom's: Knowledge

17. If financial markets were____, all information about any securities for sale in primary and secondary markets would be continuously and freely available to investors.

a.	efficient
b.	inefficient
c.	perfect
d.	imperfect

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 KEY: Bloom's: Comprehension

18. The typical role of a securities firm in a public offering of securities is to

a.	purchase the entire issue for its own investment.
b.	place the entire issue with a single large investor.
c.	spread the issue across several investors until the entire issue is sold.
d.	provide all large investors with loans so that they can invest in the offering.

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19. Without the participation of financial intermediaries in financial market transactions,

a.	information and transaction costs would be lower.
b.	transaction costs would be higher but information costs would be unchanged.
c.	information costs would be higher but transaction costs would be unchanged.
d.	information and transaction costs would be higher.

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20. Which of the following is most likely to be described as a depository institution?

a.	finance companies
b.	securities firms
c.	credit unions
d.	pension funds
e.	insurance companies

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21. In aggregate, _____ are the most dominant depository institution, with more total assets than other depository institutions.

a.	commercial banks
b.	savings banks
c.	credit unions
d.	S&Ls

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22. Which of the following is a nondepository financial institution?

a.	savings banks
b.	commercial banks
c.	savings and loan associations
d.	mutual funds

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NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

23. Which of the following distinguishes credit unions from commercial banks and savings institutions?

a.	Credit unions are non-profit
b.	Credit unions accept deposits but do not make loans
c.	Credit unions make loans but do not accept deposits
d.	Savings institutions restrict their business to members who share a common bond

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24. When a securities firm acts as a broker, it

a.	guarantees the issuer a specific price for newly issued securities.
b.	makes a market in specific securities by adjusting its own inventory.
c.	executes transactions between two parties.
d.	purchases securities for its own account.

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KEY: Bloom's: Knowledge

25. When a securities firm acts as a(n) _____, it maintains a position in securities.

a.	adviser
b.	dealer
c.	broker
d.	none of the above

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KEY: Bloom's: Knowledge

26. _____ obtain funds by issuing securities, then lend the funds to individuals and small businesses.

a.	Finance companies
b.	Securities firms
c.	Mutual funds
d.	Insurance companies

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NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

27. Households with _____ are served by _____.

a.	deficient funds; depository institutions and finance companies
b.	deficient funds; finance companies only
c.	savings; finance companies only
d.	savings; pension funds and finance companies

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KEY: Bloom's: Knowledge

28. _____ concentrate on mortgage loans.

a.	Finance companies
b.	Commercial banks
c.	Savings institutions
d.	Credit unions

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KEY: Bloom's: Knowledge

29. _____ securities have a maturity of one year or less; _____ securities are generally more liquid.

a.	Money market; capital market
b.	Money market; money market
c.	Capital market; money market
d.	Capital market; capital market

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KEY: Bloom's: Knowledge

30. Which of the following is not a major investor in stocks?

a.	commercial banks
b.	insurance companies
c.	mutual funds
d.	pension funds

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KEY: Bloom's: Knowledge

31. Which of the following financial intermediaries commonly invests in stocks and

bonds?

a.	pension funds
b.	insurance companies
c.	mutual funds
d.	all of the above

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KEY: Bloom's: Knowledge

32. Securities are certificates that represent a claim on the issuer.

- a. True
- b. False

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KEY: Bloom's: Knowledge

33. Debt securities are certificates that represent debt (borrowed funds) by the issuer.

- a. True
- b. False

ANS: T PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.01
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

34. A five-year security was purchased two years ago by an investor who plans to resell it. The security will be sold by the investor in the so-called

a.	secondary market.
b.	primary market.
c.	deficit market.
d.	surplus market.

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NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Comprehension

35. When security prices fully reflect all available information, the markets for these securities are said to be efficient.

- a. True
- b. False

ANS: T PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.01
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

36. If markets are perfect, securities buyers and sellers to not have full access to information and cannot always break down securities to the precise size they desire.

- a. True
- b. False

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KEY: Bloom's: Knowledge

37. A broker executes securities transactions between two parties and charges a fee reflected in the bid-ask spread.

- a. True
- b. False

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KEY: Bloom's: Knowledge

38. The euro increased business between European countries and created a more competitive environment in Europe.

- a. True
- b. False

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KEY: Bloom's: Knowledge

39. In recent years, financial institutions have consolidated to capitalize on economies of scale and on economies of scope.

- a. True
- b. False

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KEY: Bloom's: Knowledge

40. Securities are certificates that represent a claim on the provider of funds.

- a. True
- b. False

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KEY: Bloom's: Knowledge

41. Debt securities include commercial paper, Treasury bonds, and corporate bonds.

- a. True
- b. False

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KEY: Bloom's: Knowledge

42. Common types of capital market securities include Treasury bills and commercial paper.

- a. True
- b. False

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NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

43. Common types of money market securities include negotiable certificates of deposit and Treasury bills.

- a. True

b. False

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KEY: Bloom's: Knowledge

44. Money market securities are commonly issued in order to finance the purchase of assets such as buildings, equipment, or machinery.

- a. True
- b. False

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KEY: Bloom's: Knowledge

45. The total asset value of savings institutions is larger than that of commercial banks.

- a. True
- b. False

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NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

46. Financial markets facilitating the flow of short-term funds with maturities of less than one year are known as

a.	secondary markets.
b.	capital markets.
c.	primary markets.
d.	money markets.
e.	none of the above

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NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

47. Which of the following transactions would not be considered a secondary market transaction?

a.	An individual investor purchases some existing shares of stock in IBM through his broker.
b.	An institutional investor sells some Disney stock through its broker.
c.	A firm that was privately held engages in an offering of stock to the public.
d.	All of the above are secondary market transactions.

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KEY: Bloom's: Comprehension

48. If investors speculate in the underlying asset rather than derivative contracts on the underlying asset, they will probably achieve _____ returns, and they are exposed to relatively _____ risk.

a.	lower; lower
b.	lower; higher
c.	higher; lower
d.	higher; higher

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NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02

KEY: Bloom's: Knowledge

49. _____ maintain a larger amount of assets in aggregate than the other types of nondepository institutions.

a.	Finance companies
b.	Mutual funds
c.	Life insurance companies
d.	Securities firms

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NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

50. A common use of funds for _____ is investment in stocks and businesses, while their main use of funds is providing loans to households and businesses.

a.	savings institutions
b.	commercial banks
c.	mutual funds
d.	finance companies

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KEY: Bloom's: Knowledge

51. Long-term debt securities tend to have a _____ expected return and _____ risk than money market securities.

a.	lower; lower
b.	lower; higher
c.	higher; lower
d.	higher; higher

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KEY: Bloom's: Comprehension

52. Common types of capital market securities include Treasury bills and commercial paper.

- a. True
- b. False

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KEY: Bloom's: Knowledge

53. Common types of money market securities include negotiable certificates of deposit and Treasury bills.

- a. True
- b. False

ANS: T PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02
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KEY: Bloom's: Knowledge

54. Capital market securities are commonly issued in order to finance the purchase of assets such as buildings, equipment, or machinery.

- a. True
- b. False

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 KEY: Bloom's: Knowledge

55. Commercial banks in aggregate have more assets than credit unions.

- a. True
- b. False

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 KEY: Bloom's: Knowledge

56. Those participants who receive more money than they spend are referred to as

a.	deficit units.
b.	surplus units.
c.	borrowing units.
d.	government units.

ANS: B PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.01
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 KEY: Bloom's: Knowledge

57. Equity securities

a.	have a maturity.
b.	pay interest on a periodic basis.
c.	represent ownership in the issuer.
d.	repay the principal amount at maturity.

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 KEY: Bloom's: Comprehension

58. The term_____involves decisions such as how much funding to obtain, and how to invest the proceeds to expand operations.

a.	corporate finance
b.	investment management
c.	financial markets and institutions
d.	none of the above

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 KEY: Bloom's: Knowledge

59. There is a_____relationship between the risk of a security and the expected return from investing in the security.

a.	positive
b.	negative
c.	indeterminable
d.	none of the above

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KEY: Bloom's: Comprehension

60. If a security is undervalued, some investors would capitalize from this by purchasing that security. As a result, the security's price will _____, resulting in a _____ return for those investors.

a.	rise; lower
b.	fall; higher
c.	fall; lower
d.	rise; higher

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KEY: Bloom's: Comprehension

61. The credit crisis in the 2008-2009 period was caused by weak economies in Asia.
a. True
b. False

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NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

62. _____ are classified as a depository institution.

a.	Credit unions
b.	Pension funds
c.	Finance companies
d.	Securities firms

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NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

63. The main reason that depository institutions experienced financial problems during the credit crisis was their investment in:

a.	mortgages.
b.	money market securities.
c.	stock.
d.	Treasury bonds.

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KEY: Bloom's: Comprehension

64. Those financial markets that facilitate the flow of short-term funds (with maturities of less than one year) are known as capital markets, while those that facilitate the flow of long-term funds are known as money markets.

a. True
b. False

ANS: F PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

65. Treasury bonds have a maturity of one to three years.

a. True
b. False

ANS: F PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

66. Since markets are efficient, institutional and individual investors should ignore the various investment instruments available.

- a. True
- b. False

ANS: F PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Comprehension

67. Speculating with derivative contracts on an underlying asset typically results in both higher risk and higher returns than speculating in the underlying asset itself.

- a. True
- b. False

ANS: T PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Comprehension

68. When security prices fully reflect all available information, the markets for these securities are said to be perfect.

- a. True
- b. False

ANS: F PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.03
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

69. Securities that are not as safe and liquid as other securities are never considered for investment by anyone.

- a. True
- b. False

ANS: F PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.01
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

70. By requiring full disclosure of information, securities laws prevent investors from making poor investment decisions.

- a. True
- b. False

ANS: F PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Comprehension

71. When a depository institution offers a loan, it is acting as a creditor.

- a. True
- b. False

ANS: T PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.03

NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

72. Savings institutions represent a nondepository institution.
a. True
b. False

ANS: F PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.03
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

73. Most mutual funds obtain funds by issuing securities, then lend the funds to individuals and small businesses.
a. True
b. False

ANS: F PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.03
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

74. Institutional investors not only provide financial support to companies but exercise some degree of corporate control over them.
a. True
b. False

ANS: F PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.03
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Comprehension

75. Which of the following is not a reason why depository financial institutions are popular?

a.	They offer deposit accounts that can accommodate the amount and liquidity characteristics desired by most surplus units.
b.	They repackage funds received from deposits to provide loans of the size and maturity desired by deficit units.
c.	They accept the risk on loans provided.
d.	They use their information resources to act as a broker, executing securities transactions between two parties.
e.	They have more expertise than individual surplus units in evaluating the creditworthiness of deficit units.

ANS: D PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.03
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Analysis

76. According to your text, which of the following is not considered a money market security?

a.	Treasury bills
b.	Treasury notes
c.	retail CD
d.	banker's acceptance
e.	commercial paper

ANS: B PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02

KEY: Bloom's: Knowledge

77. _____ are not considered capital market securities.

a.	Repurchase agreements
b.	Municipal bonds
c.	Corporate bonds
d.	Equity securities
e.	Mortgages

ANS: A PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

78. _____ are long-term debt obligations issued by corporations and government agencies to support their operations.

a.	Common stock
b.	Derivative securities
c.	Bonds
d.	None of the above

ANS: C PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

79. Equity securities should normally have a _____ expected return and _____ risk than money market securities.

a.	lower; lower
b.	lower; higher
c.	higher; lower
d.	higher; higher

ANS: D PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Comprehension

80. If investors speculate in derivative contracts rather than the underlying asset, they will probably achieve _____ returns, and they are exposed to relatively _____ risk.

a.	lower; lower
b.	lower; higher
c.	higher; lower
d.	higher; higher

ANS: D PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Comprehension

81. When particular securities are perceived to be _____ by the market, their prices decrease when they are sold by investors.

a.	undervalued
b.	overvalued
c.	fairly priced
d.	efficient
e.	none of the above

ANS: B PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02

NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02

KEY: Bloom's: Knowledge

82. Which of the following are not considered depository financial institutions?

a.	finance companies
b.	commercial banks
c.	savings institutions
d.	credit unions
e.	All of the above are depository financial institutions.

ANS: A PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.03

NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02

KEY: Bloom's: Knowledge

83. The main source of funds for _____ is proceeds from selling securities to households and businesses, while their main use of funds is providing loans to households and businesses.

a.	savings institutions
b.	commercial banks
c.	mutual funds
d.	finance companies
e.	pension funds

ANS: D PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.03

NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02

KEY: Bloom's: Knowledge

84. Which of the following statements is incorrect?

a.	Financial markets attract funds from investors and channel the funds to corporations.
b.	Money markets enable corporations to borrow funds on a short-term basis so that they can support their existing operations.
c.	Financial institutions serve solely as intermediaries with the financial markets and never serve as investors.
d.	Investors seek to invest their funds in the stock of firms that are presently undervalued and have much potential to improve.

ANS: C PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.03

NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02

KEY: Bloom's: Analysis

85. Which of the following is not a typical money market security?

a.	Treasury bills
b.	Treasury bonds
c.	Commercial paper
d.	Negotiable certificates of deposit

ANS: B PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02

NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02

KEY: Bloom's: Knowledge

86. Debt securities issued by a small firm may be _____, meaning that _____ investors want to invest in those securities.

a.	a. liquid; many
b.	a. liquid; not many
c.	a. illiquid; not many

d.	a.	illiquid; many
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ANS: C PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.01
 NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
 KEY: Bloom's: Comprehension

87. Valuing stocks is easier than valuing debt securities because stocks promise to provide investors with specific payments at regular intervals.

- a. True
- b. False

ANS: F PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.02
 NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
 KEY: Bloom's: Knowledge

88. _____ applies psychology to financial decisions and offers an explanation for why markets are not always efficient.

a.	a.	Psychological marketing
b.	a.	Behavioral finance
c.	a.	Inefficient markets theory
d.	a.	Financial psychology

ANS: B PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02
 NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
 KEY: Bloom's: Knowledge

89. International integration of securities markets allows:

a.	a.	governments and corporations to have easier access to funding from creditors and investors in other countries.
b.	a.	investors and creditors to benefit from investment opportunities in other countries.
c.	a.	one's country's financial problems to adversely affect other countries.
d.	a.	All of the above

ANS: D PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.02
 NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
 KEY: Bloom's: Analysis

90. The foreign exchange market facilitates the exchange of:

a.	a.	information between investors in different countries.
b.	a.	debt securities.
c.	a.	equity securities.
d.	a.	currencies.

ANS: D PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02
 NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
 KEY: Bloom's: Knowledge

91. Which of the following is *not* an example of the government's recent increased role in financial markets?

a.	a.	the Federal Reserve's purchase of debt securities during the credit crisis
b.	a.	regulations changing the way that the credit risk of bonds is assessed
c.	a.	regulations setting maximum rates for Treasury securities
d.	a.	increased monitoring of stock trading and prosecution of those who trade on inside information

ANS: C PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Comprehension

92. Commercial paper represents long-term debt obligations created to finance the purchase of commercial property.
a. True
b. False

ANS: F PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.02
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Comprehension

93. The risk that financial problems could spread among financial institutions and across financial markets, causing a collapse of the financial system, is known as:

a.	a.	systemic risk.
b.	a.	leverage risk.
c.	a.	financial meltdown risk.
d.	a.	credit risk.

ANS: A PTS: 1 DIF: Easy OBJ: FMAI.MADU.15.01.04
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Knowledge

94. Systemic risk exists because:

a.	a.	there is no government regulation of financial markets.
b.	a.	financial institutions invest in similar securities and therefore are similarly exposed to large declines in prices of those securities.
c.	a.	financial institutions borrow using long-term debt securities but lend their funds for short-term periods.
d.	a.	financial institutions invest heavily in Treasury securities and therefore are exposed to the possibility that the government will default on its debts.

ANS: B PTS: 1 DIF: Moderate OBJ: FMAI.MADU.15.01.04
NAT: BUSPROG.FMAI.MADU.15.03 STA: DISC.FMAI.MADU.15.02
KEY: Bloom's: Analysis