Chapter 01 - Testbank

*Student: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. |

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| --- |
| Financial assets represent \_\_\_\_\_\_\_\_ of total assets of Australian households in 2011. |

|  |  |
| --- | --- |
| A.  | over 35% |

|  |  |
| --- | --- |
| B.  | over 90% |

|  |  |
| --- | --- |
| C.  | under 10% |

|  |  |
| --- | --- |
| D.  | about 30% |

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|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. |

|  |
| --- |
| Real assets in the economy include all but which one of the following? |

|  |  |
| --- | --- |
| A.  | Land |

|  |  |
| --- | --- |
| B.  | Buildings |

|  |  |
| --- | --- |
| C.  | Consumer durables |

|  |  |
| --- | --- |
| D.  | Common shares |

 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. |

|  |
| --- |
| Net worth represents \_\_\_\_\_\_\_\_ of the liabilities and net worth of Australian households. |

|  |  |
| --- | --- |
| A.  | about 50% |

|  |  |
| --- | --- |
| B.  | about 90% |

|  |  |
| --- | --- |
| C.  | about 80% |

|  |  |
| --- | --- |
| D.  | about 30% |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. |

|  |
| --- |
| According to Australian household balance sheet, the largest liability of Australian households is \_\_\_\_\_\_\_\_. |

|  |  |
| --- | --- |
| A.  | mortgages |

|  |  |
| --- | --- |
| B.  | consumer credit |

|  |  |
| --- | --- |
| C.  | bank loans |

|  |  |
| --- | --- |
| D.  | gambling debts |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. |

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| --- |
| \_\_\_\_\_\_\_\_ is not a derivative security. |

|  |  |
| --- | --- |
| A.  | A share of common shares |

|  |  |
| --- | --- |
| B.  | A call option |

|  |  |
| --- | --- |
| C.  | A futures contract |

|  |  |
| --- | --- |
| D.  | All of the answers are derivative securities. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. |

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| --- |
| According to Australian household balance sheet, the largest financial asset of Australian households is \_\_\_\_\_\_\_\_. |

|  |  |
| --- | --- |
| A.  | mutual fund shares |

|  |  |
| --- | --- |
| B.  | corporate equity |

|  |  |
| --- | --- |
| C.  | insurance and superannuation reserves |

|  |  |
| --- | --- |
| D.  | personal trusts |

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|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. |

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| --- |
| Active trading in markets and competition among securities analysts helps ensure that \_\_\_\_\_\_\_\_. I. security prices approach informational efficiency II. riskier securities are priced to offer higher potential returns III. investors are unlikely to be able to consistently find under- or over-valued securities |

|  |  |
| --- | --- |
| A.  | I only  |

|  |  |
| --- | --- |
| B.  | I and II only  |

|  |  |
| --- | --- |
| C.  | II and III only  |

|  |  |
| --- | --- |
| D.  | I, II and III  |

 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. |

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| --- |
| The material wealth of society is determined by the economy's \_\_\_\_\_\_\_\_, which is a function of the economy's \_\_\_\_\_\_\_\_. |

|  |  |
| --- | --- |
| A.  | investment bankers, financial assets |

|  |  |
| --- | --- |
| B.  | investment bankers, real assets |

|  |  |
| --- | --- |
| C.  | productive capacity, financial assets |

|  |  |
| --- | --- |
| D.  | productive capacity, real assets |

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| 9. |

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| --- |
| Which of the following is not a money market security? |

|  |  |
| --- | --- |
| A.  | Australian government bond |

|  |  |
| --- | --- |
| B.  | Six month maturity certificate of deposit |

|  |  |
| --- | --- |
| C.  | Common shares |

|  |  |
| --- | --- |
| D.  | Banker's acceptance |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. |

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| --- |
| \_\_\_\_\_\_\_\_ assets generate net income to the economy and \_\_\_\_\_\_\_\_ assets define allocation of income among investors. |

|  |  |
| --- | --- |
| A.  | Financial, financial |

|  |  |
| --- | --- |
| B.  | Financial, real |

|  |  |
| --- | --- |
| C.  | Real, financial |

|  |  |
| --- | --- |
| D.  | Real, real |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. |

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| --- |
| Which of the following are financial assets? I. Debt securities II. Equity securities III. Derivative securities |

|  |  |
| --- | --- |
| A.  | I only  |

|  |  |
| --- | --- |
| B.  | I and II only  |

|  |  |
| --- | --- |
| C.  | II and III only  |

|  |  |
| --- | --- |
| D.  | I, II and III  |

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| 12. |

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| --- |
| \_\_\_\_\_\_\_\_ are examples of financial intermediaries. |

|  |  |
| --- | --- |
| A.  | Commercial banks |

|  |  |
| --- | --- |
| B.  | Insurance companies |

|  |  |
| --- | --- |
| C.  | Investment companies |

|  |  |
| --- | --- |
| D.  | All of the answers are financial intermediaries |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. |

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| --- |
| Asset allocation refers to the \_\_\_\_\_\_\_\_. |

|  |  |
| --- | --- |
| A.  | allocation of the investment portfolio across broad asset classes |

|  |  |
| --- | --- |
| B.  | analysis of the value of securities |

|  |  |
| --- | --- |
| C.  | choice of specific assets within each asset class |

|  |  |
| --- | --- |
| D.  | none of the answers define asset allocation |

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| 14. |

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| --- |
| Which one of the following best describes the purpose of derivatives markets? |

|  |  |
| --- | --- |
| A.  | Transferring risk from one party to another |

|  |  |
| --- | --- |
| B.  | Investing for a short time period to earn a small rate of return |

|  |  |
| --- | --- |
| C.  | Investing for retirement |

|  |  |
| --- | --- |
| D.  | Earning interest income |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. |

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| --- |
| Security selection refers to the \_\_\_\_\_\_\_\_. |

|  |  |
| --- | --- |
| A.  | allocation of the investment portfolio across broad asset classes |

|  |  |
| --- | --- |
| B.  | analysis of the value of securities |

|  |  |
| --- | --- |
| C.  | choice of specific securities within each asset class |

|  |  |
| --- | --- |
| D.  | top down method of investing |

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| 16. |

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| --- |
| \_\_\_\_\_\_\_\_ is an example of an agency problem. |

|  |  |
| --- | --- |
| A.  | Managers engaging in empire building |

|  |  |
| --- | --- |
| B.  | Managers protecting their jobs by avoiding risky projects |

|  |  |
| --- | --- |
| C.  | Managers over-consuming luxuries such as corporate jets |

|  |  |
| --- | --- |
| D.  | All of the answers provide examples of agency problems |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 17. |

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| --- |
| \_\_\_\_\_\_\_\_ is a mechanism to mitigate potential agency problems. |

|  |  |
| --- | --- |
| A.  | Tying income of managers to the success of the firm |

|  |  |
| --- | --- |
| B.  | Directors defending top management |

|  |  |
| --- | --- |
| C.  | Anti-takeover strategies |

|  |  |
| --- | --- |
| D.  | The straight-voting method of electing the board of directors |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. |

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| --- |
| \_\_\_\_\_\_\_\_ are real assets. |

|  |  |
| --- | --- |
| A.  | Bonds |

|  |  |
| --- | --- |
| B.  | Items of production equipment |

|  |  |
| --- | --- |
| C.  | Shares |

|  |  |
| --- | --- |
| D.  | Commercial papers |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. |

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| --- |
| \_\_\_\_\_\_\_\_ portfolio construction starts with selecting attractively priced securities. |

|  |  |
| --- | --- |
| A.  | Bottom-up |

|  |  |
| --- | --- |
| B.  | Top-down |

|  |  |
| --- | --- |
| C.  | Upside-down |

|  |  |
| --- | --- |
| D.  | Side-to-side |

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|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20. |

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| --- |
| In a capitalist system capital resources are primarily allocated by \_\_\_\_\_\_\_\_. |

|  |  |
| --- | --- |
| A.  | governments |

|  |  |
| --- | --- |
| B.  | regulatory authorities |

|  |  |
| --- | --- |
| C.  | financial markets |

|  |  |
| --- | --- |
| D.  | investment bankers |

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|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. |

|  |
| --- |
| A \_\_\_\_\_\_\_\_ represents an ownership share in a corporation. |

|  |  |
| --- | --- |
| A.  | call option |

|  |  |
| --- | --- |
| B.  | common share |

|  |  |
| --- | --- |
| C.  | fixed-income security |

|  |  |
| --- | --- |
| D.  | preferred share |

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|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. |

|  |
| --- |
| The value of a derivative security \_\_\_\_\_\_\_\_. |

|  |  |
| --- | --- |
| A.  | depends on the value of other related security |

|  |  |
| --- | --- |
| B.  | affects the value of a related security |

|  |  |
| --- | --- |
| C.  | is unrelated to the value of a related security |

|  |  |
| --- | --- |
| D.  | can only be integrated by calculus professors |

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