Chapter 01 - Testbank

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

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

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| 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. | |  | | --- | | \_\_\_\_\_\_\_\_ 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. | |  | | --- | | 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. | |  | | --- | | 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 | |

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| 8. | |  | | --- | | 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. | |  | | --- | | 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. | |  | | --- | | \_\_\_\_\_\_\_\_ 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. | |  | | --- | | 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. | |  | | --- | | \_\_\_\_\_\_\_\_ 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. | |  | | --- | | 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. | |  | | --- | | 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. | |  | | --- | | 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. | |  | | --- | | \_\_\_\_\_\_\_\_ 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. | |  | | --- | | \_\_\_\_\_\_\_\_ 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. | |  | | --- | | \_\_\_\_\_\_\_\_ are real assets. |         |  |  | | --- | --- | | A. | Bonds |  |  |  | | --- | --- | | B. | Items of production equipment |  |  |  | | --- | --- | | C. | Shares |  |  |  | | --- | --- | | D. | Commercial papers | |

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| 19. | |  | | --- | | \_\_\_\_\_\_\_\_ 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. | |  | | --- | | 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 | |