

Chapter 16 Financial Management and Securities Markets

Trues/False Questions

1) Companies try to keep just enough cash on hand to pay their bills. This is called locked investments.

True False

2) A marketable security is a temporary investment of cash.

True False

3) U.S. T-bills are generally considered to be the safest of all investments and are called risk free because the U.S. government will not default on its debt.

True False

4) Eurodollar deposits can only be made at banks located in London.

True False

5) Because of the seasonal nature of his business, George sometimes had trouble keeping enough cash on hand to make payroll. This problem could be solved if George had a line of credit at his bank.

True False

6) Most business failures are the result of poor long-term planning.

True False

7) Production facilities, offices, equipment, and heavy machinery are all fixed assets.

True False

8) The process of analyzing the needs of the business and selecting the fixed assets that will maximize its value is called financial planning.

True False

9) When a stock splits one for two, your value in that company's stock doubles.

True False

10) Long-term liabilities are repaid over a number of years but are not considered debt.

True False

11) Bonds may be issued by corporations, governments, and public utilities but not by nonprofit corporations.

True False

12) Serial bonds are a sequence of small bond issues of progressively longer maturity.

True False

13) Junk bonds offer high rates of interest.

True False

14) Common stock, preferred stock, and retained earnings are all forms of stockholder's equity.

True False

15) The single most important source of capital for most new companies is equity.

True False

16) The primary advantage of owning preferred stock is that it is a safer investment than common stock.

True False

17) Fast growing companies, like Facebook, pay high dividends because the cash is readily available.

True False

18) New issues of stocks and bonds are sold directly to the public and to institutions in what is known as the primary market.

True False

19) Secondary market trades are not available over the counter. They can only be done through organized exchanges.

True False

20) Both the NYSE and NASDAQ are not-for-profit organizations.

True False

21) Simple calculations of averages are used to determine stock prices.

True False

22) The 60 companies that make up the Dow Jones Industrial Average account for 75% of the value of the NYSE.

True False

Multiple Choice Questions

23) Cash, investments, accounts receivable, and inventory are

- A) retained earnings.
- B) current liabilities.
- C) long-term assets.
- D) long-term liabilities.
- E) current assets.

24) Which of the following explains why the terms current and short term are used interchangeably when discussing assets and liabilities?

- A) These assets and liabilities will always be more current than previously established assets and liabilities.
- B) These assets and liabilities are constantly evolving, so they are constantly considered to be current.
- C) These assets and liabilities are replaced with new assets and liabilities every five years.
- D) These assets and liabilities are usually replaced by new assets and liabilities within a week.
- E) These assets and liabilities are usually replaced by new assets and liabilities within three or four months and always within a year.

25) Chana is a financial manager for a large dental office. One of the most important facets of her job is ensuring that sufficient, but not excessive, funds are on hand to meet the office's obligations. Which of the following current assets is Chana managing in this scenario?

- A) accrued taxes
- B) temporary investments
- C) inventory
- D) cash
- E) accounts receivable

26) Working capital management refers to

- A) managing long-term liabilities.
- B) managing long-term assets.
- C) managing short-term assets and liabilities.
- D) financing internal projects.
- E) financing small business enterprises.

- 27) Ida is a financial manager who focuses on current assets and liabilities. All of the following are part of her chief goal EXCEPT maximizing returns on
- A) cash.
 - B) inventory.
 - C) temporary investments of idle cash.
 - D) accounts receivable.
 - E) accrued taxes.
- 28) In the context of managing cash in an organization, which of the following is true?
- A) Business organizations make money from idle cash.
 - B) Corporate checking accounts typically earn interest.
 - C) Money managers try to keep as much cash in their hands as possible.
 - D) To manage a firm's cash, companies try to speed up cash collections from customers.
 - E) Managers measure cash flow as the amount of cash the firm spends in a period of one year.
- 29) Florence tries to keep just enough cash on hand to pay employee wages and utility bills. This cash is referred to as
- A) long-term assets.
 - B) marketable securities.
 - C) transaction balances.
 - D) retained earnings.
 - E) secured bonds.
- 30) A large computer technology company wants to collect cash from its customers quickly but pay out cash to its suppliers slowly. How might this company succeed in accomplishing this goal?
- A) use electronic funds transfers to collect payments and checks to make payments
 - B) use checks to collect payments and electronic funds transfers to make payments
 - C) have customers send payments directly to its mailing address and send payments to suppliers via their lockboxes
 - D) use electronic funds transfers for both, but set the delivery dates to one day for payments from customers and three or four days for payments to suppliers
 - E) use checks for both, but require customers to send checks via express mail and send checks to suppliers via regular mail
- 31) Since idle cash does not make money, a manager may choose to invest this extra cash in temporary investments called
- A) junk bonds.
 - B) long-term assets.
 - C) transaction balances.
 - D) marketable securities.
 - E) secured bonds.

- 32) Which of the following is true of a lockbox?
- A) It is a box allocated to employees for keeping their valuables.
 - B) It is simply an address for receiving payments.
 - C) It is a box used to maintain transaction balances.
 - D) It is a financial instrument used to pay off loans.
 - E) It is a financial instrument used to manage long-term assets.
- 33) When Oliver's Oil Company bills its customers, it has them send their payments to an address that is just for receiving payments, instead of directly to the company's mailing address. Although this system costs Oliver's Oil Company a lot of money, it is worth it because the company receives thousands of checks from customers each business day. What system is this company using to receive its payments?
- A) an inventory box
 - B) a safety deposit box
 - C) a P.O. box
 - D) a lockbox
 - E) a transaction box
- 34) More and more companies are now using electronic funds transfer systems to collect bill payments online because it
- A) reduces the amount of tax they need to pay on their profits.
 - B) helps them collect more money than they can through checks.
 - C) reduces the amount of money they need to pay off their bills.
 - D) helps them increase the speed of collections and disbursements to one day.
 - E) helps them quickly pay out the cash that they collect.
- 35) Al's Automobile Shop invests the cash it earns in marketable securities, for periods as short as one day or for as long as one year, until it is needed. Which of the following is a temporary investment type Al's Automobile Shop would likely use to invest these funds?
- A) U.S. Treasury bills
 - B) tradable equities
 - C) transaction balances
 - D) stock dividends
 - E) cash deposits
- 36) Which of the following types of marketable securities are the safest?
- A) U.S. Treasury bills
 - B) commercial paper
 - C) certificates of deposit
 - D) eurodollar deposits
 - E) cash deposits

- 37) _____ are marketable securities that are short-term debt obligations sold by the U.S. government to raise money.
- A) Commercial certificates of deposits
 - B) U.S. Treasury bills
 - C) Eurodollar deposits
 - D) Secured loans
 - E) Trade credits
- 38) _____ are issued by commercial banks and brokerage companies, are available in minimum amounts of \$100,000, and may be traded prior to maturity.
- A) Trade credits
 - B) U.S. Treasury bills
 - C) Serial bonds
 - D) Commercial loans
 - E) Commercial certificates of deposit
- 39) Globalworld, a company that develops technological innovations, invests its excess cash in a commercial certificate of deposit. If a cash shortage occurs, what will Globalworld most likely do?
- A) return the CD to the commercial bank or brokerage company and get its money back
 - B) trade the CD for a lower cost CD to obtain needed funds
 - C) sell the CD on the open market and obtain needed funds
 - D) find an unrelated way to obtain needed funds since CDs must be held until maturity
 - E) wait for the CD to reach maturity and then trade it in for the needed funds
- 40) _____ is a written promise from one company to another to pay a certain amount of money.
- A) Commercial paper
 - B) U.S. Treasury bill
 - C) Certificate of deposit
 - D) Secured bond
 - E) Trade credit
- 41) Which of the following is true of commercial paper?
- A) It is the most popular long-term investment for small businesses.
 - B) It acts as a verbal promise to pay a specific amount of money.
 - C) It is backed only by the name and reputation of the issuing company.
 - D) It is only sold to sole proprietors and small businesses.
 - E) It is only sold for durations of two years or more.
- 42) During 2007 and 2008, the market for which of the following short-term investments stopped functioning and had to be rescued by the Federal Reserve?
- A) consumer certificates of deposit
 - B) eurodollars
 - C) Treasury bills
 - D) commercial certificates of deposit
 - E) commercial paper

43) Which of the following statements is true of the eurodollar market?

- A) It refers to any dollar-denominated deposit in a U.S. bank.
- B) It offers risk-free investments as they are backed by the U.S. government.
- C) It is used by companies to invest idle cash in international markets.
- D) It was originally developed by American banks.
- E) It is used to trade the euro in the U.S. markets.

44) Gwen is traveling internationally selling her company's computer software. While she is in Scotland, she makes a deposit of \$10,000 in a bank there. Which of the following short-term investments does this scenario describe?

- A) international deposits
- B) eurodollar deposits
- C) commercial paper
- D) commercial certificates of deposit
- E) international certificates of deposit

45) Iggy's Automobiles makes the vast majority of its car sales on credit. Which of the following is something Iggy's may do to encourage quick payment of these accounts receivable?

- A) offer customers discounts if they pay off their balances within a specified time period
- B) threaten to charge customers extra money if they pay their balances after the specified time period is over
- C) offer customers a free upgrade to a nicer car model if they pay their balances off on time
- D) send customer accounts to collections if they do not pay off their balances on time
- E) extend credit to customers who don't have good credit ratings to encourage them to feel obligated to pay their balances quickly

46) Which of the following is money owed to a business by credit customers?

- A) accounts receivable
- B) accounts payable
- C) trade credit
- D) U.S. Treasury bill
- E) secured bond

47) Which of the following is one of the utilities of the radio frequency identification (RFID) technology?

- A) It is used for office communication with the help of radio waves.
- B) It is used to track stock exchange developments.
- C) It is used to better manage inventory by tracking inventory shipments.
- D) It is used by consumers to pay bills from any chosen location.
- E) It is used to relay radio signals for business promotion through radio broadcasting.

48) Barb's Construction Company receives weekly shipments of lumber, vinyl siding, and stone slabs from one of its materials suppliers on credit. Since Barb's Construction Company is a regular customer, the supplier has made an agreement to give the company discounts if it pays its bill early. Which of the following short-term liabilities does this scenario best describe?

- A) accounts receivable
- B) certificates of deposit
- C) line of credit
- D) trade credit
- E) discount window

49) Which of the following is the most widely used form of short-term financing, and therefore, the most important account payable?

- A) commercial paper
- B) trade credit
- C) treasury bills
- D) commercial certificates of deposit
- E) marketable securities

50) The Equestrian Shoppe offers trailering services to equestrian stables shipping horses to long-distance horse shows. It offers customers trade credit agreements with terms of 2/10 net 30. What does this mean?

- A) Customers have 2 days to pay 10 percent of their bill, and then, they have 30 days to pay the rest.
- B) Customers can save 2 percent off the invoice amount if they pay within 10 days, or they can pay the entire amount within 30 days.
- C) Customers can save 30 percent off their invoice amount if they pay 10 percent of the bill within 2 days.
- D) Customers can save \$2 for every \$10 they spend if they pay within 30 days.
- E) Customers can save 10 percent off the invoice amount if they pay within 2 days, or they can pay the entire amount within 30 days.

51) Dan bought three new trucks with a loan obtained from the First National Bank. If he fails to repay the loan, the bank will repossess the trucks. The trucks typically represent

- A) a line of credit.
- B) a lockbox.
- C) collateral.
- D) accounts payable.
- E) retained earnings.

52) Pooja is an entrepreneur who starts an IT firm with limited funds. In order to conduct her business, she acquires 12 laptops, 15 desktops, and other accessories from a local electronics retailer. The retailer understands her financial situation and allows her to pay for the computers and accessories in installments. In this scenario, the type of funding Pooja has obtained can be regarded as a

- A) line of credit.
- B) trade credit.
- C) logbook loan.
- D) non-recourse loan.
- E) personal loan.

53) Bill owns a bakery, and he has put all his savings into running this business. During the busy holiday season, he needs short-term help financing the bakery's operations, so he goes to the bank to request \$25,000 from a prearranged loan. The bank agrees to lend Bill this amount of money. Which of the following types of bank loans does this scenario best describe?

- A) an unsecured loan
- B) a certificate of deposit
- C) a trade credit
- D) a secured loan
- E) a line of credit

54) Martin is a real estate developer who borrows \$100,000 from a bank and ends up paying back \$120,000. In this scenario, the \$100,000 represents the

- A) collateral.
- B) interest.
- C) down payment.
- D) principal.
- E) trade credit.

55) If Linda Wilson borrows \$20,000 to buy a car and ends up paying the lender a total of \$24,000, the \$4,000 represents the

- A) principal.
- B) collateral.
- C) trade credit.
- D) discount.
- E) interest.

56) Nora wants to open a new dance studio. She goes to the bank to get a loan to start her business, and the bank gives her a loan that is backed by her good reputation and previous credit rating. Which type of bank loan does this scenario best describe?

- A) a secured loan
- B) an unsecured loan
- C) a line of credit
- D) a prime rate loan
- E) a collateral loan

57) When Padma started her own cosmetics company, she took out a loan from her local bank. Padma took a second mortgage on her home as collateral for the loan. Which type of bank loan does this scenario best describe?

- A) a secured loan
- B) an unsecured loan
- C) a line of credit
- D) a credit rating loan
- E) a prime rate loan

58) The _____ rate is the interest rate commercial banks charge their best customers for short-term loans.

- A) factor
- B) over-the-counter
- C) prime
- D) credit
- E) trade

59) Which type of commercial loan offers an advantage when interest rates are falling but represents a distinct disadvantage when interest rates are rising?

- A) a floating-rate loan
- B) a non-variable loan
- C) an unsecured loan
- D) a secured loan
- E) a flexible loan

60) A finance company that buys other companies' accounts receivable for less than they are worth and assumes the responsibility for collecting the debt is known as a

- A) lockbox.
- B) factor.
- C) collateral.
- D) brokerage.
- E) conciliator.

61) When Farrell's Appliances struggles financially, Farrell decides to sell his accounts receivable to a financial company, known as a factor, which pays him \$60,000 for receivables with a total face value of \$100,000. Which of the following best describes how the financial company can make a profit off these accounts receivable?

- A) The factor only profits if it can secure more sales from these customers.
- B) The factor only profits if the customers don't know that a factor has bought their receivables.
- C) The factor profits if it can produce the same products the company did at a lower cost.
- D) The factor profits if it can collect more than it paid for the accounts.
- E) The factor profits only if new accounts receivable are acquired.

- 62) Plants, offices, and equipment are considered
- A) long-term assets.
 - B) marketable securities.
 - C) common stock.
 - D) short-term liabilities.
 - E) current assets.
- 63) Ben's Travel Company provides inexpensive bus trips to several large cities. This company's offices, buses, and bus depots are examples of its _____ assets.
- A) current
 - B) floating
 - C) unsecured
 - D) fixed
 - E) junk
- 64) Shirts and Stuff is a garment manufacturing company. Which of the following would be a fixed asset for this company?
- A) U.S. Treasury bills
 - B) temporary workers
 - C) \$5,000 in Treasury bills
 - D) \$1,000 trade credit
 - E) office furniture
- 65) Which of the following involves paying a fee for usage rather than owning a particular asset?
- A) leasing
 - B) factoring
 - C) purchasing
 - D) acquiring
 - E) merging
- 66) Which of the following is a short-term cancelable lease that does not show up on a balance sheet?
- A) a capital lease
 - B) a serial bond
 - C) a transaction balance
 - D) a line of credit
 - E) an operating lease
- 67) The process of analyzing the needs of a business and selecting the assets that will maximize its value is called
- A) working capital management.
 - B) factoring.
 - C) risk assessment.
 - D) capital budgeting.
 - E) investment banking.

68) The amount of money budgeted for the purchase of long-term assets is called the _____ budget.

- A) master
- B) commercial
- C) current
- D) fixed
- E) capital

69) When a company invests a lot of money in a particular project, it is concerned about the amount of risk involved. In general, if the expected life of a project is longer, its potential risk is

- A) negligible.
- B) constant.
- C) greater.
- D) secondary.
- E) nonexistent.

70) Based on qualitative assessments, which of the following potential investment projects is the most risky?

- A) adding to an existing product line
- B) introducing a new product in a foreign market
- C) expanding into a new market
- D) buying new equipment for an established market
- E) repairing old equipment

71) Of the following potential investment projects, the project that poses the least risk is

- A) adding to a product line.
- B) introducing a new product in a foreign market.
- C) expanding into a new market.
- D) buying new equipment for an established market.
- E) repairing old equipment.

72) The board of directors of an automobile company wants to opt for an investment project that has the least risk. Which of the following projects is the board most likely to undertake?

- A) introducing a new car in a new market
- B) expanding their automobile business into a new market
- C) repairing the old manufacturing equipment
- D) buying new manufacturing equipment
- E) adding a new car to their existing line of automobiles

73) Abdullah works for a gaming company that is developing a new online role playing game. Since developing new software is expensive, the company takes out a loan. Which of the following is true regarding this scenario?

- A) As long as this company develops a fun game, regardless of costs versus returns, the company will profit.
- B) The returns from this project must cover the costs of operating the project and the interest expenses for the debt used to finance its construction.
- C) Since the finance company pays for the operating expenses, the gaming company only needs the returns from the project to cover the interest expenses for the loan.
- D) Since this type of business loan is interest-free, the returns from this project only need to cover the gaming company's operating expenses.
- E) Even if this company can't cover all of its costs, it will eventually succeed because the market is strong.

74) Which of the following is an example of a long-term liability?

- A) commercial paper
- B) bond issues
- C) a Treasury bill
- D) a certificate of deposit
- E) trade credit

75) When it comes to long-term liabilities, the key word is

- A) security.
- B) debt.
- C) credit.
- D) profit.
- E) equity.

76) Which of the following is a long-term debt instrument that requires the issuer to repay the lender in regular interest payments until the loan is repaid on or before the specified maturity date?

- A) a bond
- B) trade credit
- C) a Treasury bill
- D) commercial paper
- E) a certificate of deposit

77) Factors such as a bond's face value, maturity date, and interest rate are specified in the

- A) indenture.
- B) interest prospectus.
- C) equity contract.
- D) commercial paper.
- E) lockbox portfolio.

78) The face value of a bond is typically

- A) \$1.
- B) \$10.
- C) \$100.
- D) \$1,000.
- E) \$10,000.

79) To help itself succeed in the competitive technology marketplace, Roboman started selling bonds to raise long-term funds. Which of the following is Roboman most likely to do with these bonds?

- A) hold onto them until they reach maturity
- B) create a brief one-page bond contract
- C) keep its bond prices constant on the open market
- D) pay bondholders the face value of the bond without any interest
- E) transfer its bonds to secondary markets of brokers and dealers

80) _____ are also called debentures and are not backed by specific collateral.

- A) Dividends
- B) Treasury bills
- C) Unsecured bonds
- D) Trade credits
- E) Commercial certificates of deposit

81) _____ bonds are best described as a sequence of small bond issues of progressively longer maturity.

- A) Floating-rate
- B) Junk
- C) Secured
- D) Serial
- E) Debenture

82) Which of the following statements is true of floating-rate bonds?

- A) They are also called serial bonds.
- B) They offer interest payments much above the prevailing rates.
- C) They do not have fixed interest payments.
- D) They have progressively longer maturity.
- E) They are often associated with startup firms with limited track records.

83) In an attempt to raise long-term funds, a company decides to issue bonds to lenders. These bonds do not have fixed interest payments, and the rate of interest changes depending on economic conditions. The bonds issued by this company are examples of _____ bonds.

- A) floating-rate
- B) junk
- C) secured
- D) serial
- E) debenture

84) Whitley recently started her own tutoring firm for high school students. To help finance her

new business, which had a very limited track record, she issued bonds that offered relatively high rates of interest and had higher inherent risks. Which of the following types of bonds is Whitley most likely using in this scenario?

- A) floating-rate bonds
- B) junk bonds
- C) secured bonds
- D) serial bonds
- E) debenture bonds

85) Which of the following types of bonds became an attractive way of financing corporate mergers in the mid-1980s?

- A) secured bonds
- B) serial bonds
- C) unsecured bonds
- D) junk bonds
- E) floating-rate bonds

86) Which of the following statements is true of junk bonds?

- A) They are short-term liabilities.
- B) They are a sequence of small bond issues of progressively longer maturity.
- C) They have low inherent risks.
- D) They are typically associated with companies in good financial health.
- E) They offer relatively high rates of interest.

87) Whether secured or unsecured, bonds may be repaid

- A) only after the maturity date passes.
- B) only when bondholders decide to cash out the bond.
- C) in daily installments.
- D) in one lump sum or with many payments spread out over a period of time.
- E) in payments that start after the maturity date and continue for several years.

88) _____ is the single most important source of capital for most new companies.

- A) Commercial paper
- B) Common stock
- C) A floating-rate bond
- D) A Treasury bill
- E) Trade credit

89) The stated value of one share of stock is known as its

- A) dividend yield.
- B) capital in excess of par value.
- C) market value.
- D) par value.
- E) prime rate.

90) Fresh and Fit, a large chain of health-food stores, sells its common stock at a par value of \$15, and the offering price of the stock is \$10. This means that the capital in excess of par is

- A) \$2.00.
- B) \$5.00.
- C) \$5.50.
- D) \$7.00.
- E) \$10.00.

91) A sportswear company has gone public, and its stock's beta is listed as 0.35. What does this indicate?

- A) Its stock price is 35 percent as volatile as the Standard & Poor's 500 Index.
- B) Its stock price is only 35 percent of what it should be, compared to other companies' stock prices.
- C) Its stock price is 35 percent higher than it should be, compared to other companies' stock prices.
- D) The par value of its stock is \$35 per share.
- E) The market value of its stock is \$35 per share.

92) _____ is the price at which a particular common stock is currently trading.

- A) Beta score
- B) Alpha score
- C) Par value
- D) Market value
- E) Capital value

93) Which of the following is called *capital in excess of par*?

- A) the dollar amount printed on the stock certificate
- B) the difference between a stock's par value and its offering price
- C) the price at which the common stock is currently trading
- D) the difference between a stock's par value and its estimated price
- E) the potential price of the common stock

94) Steven bought stock in a large publishing company. As a stockholder, he is prioritized in the distribution of a firm's dividends, but he doesn't have voting and control rights. What type of stockholder is Steven?

- A) a common stockholder
- B) a proxy stockholder
- C) a preemptive stockholder
- D) a secured stockholder
- E) a preferred stockholder

95) The primary advantage of owning preferred stock is that it

- A) offers more voting rights than common stock.
- B) yields higher profits than common stock.
- C) offers more business control than common stock.
- D) is a cheaper investment than common stock.
- E) is a safer investment than common stock.

96) _____ are reinvested in the assets of the firm and belong to the owners in the form of equity.

- A) Dividend yields
- B) Secured bonds
- C) Retained earnings
- D) Transaction balances
- E) Trade credits

97) The cash return as a percentage of a stock's price is called its

- A) capital in excess of par value.
- B) dividend yield.
- C) price-earnings ratio.
- D) retained earnings.
- E) par value.

98) If the dividend of a stock is \$20.00 and its price is \$4.00, then its dividend yield is

- A) \$1.00.
- B) \$2.00.
- C) \$3.00.
- D) \$5.00.
- E) \$8.00.

99) Which of the following types of companies is most likely to pay out large proportions of their earnings in the form of dividends?

- A) fast-growing firms
- B) companies with fewer growth opportunities
- C) firms that can earn high rates of return on reinvested earnings
- D) smaller companies
- E) companies that are preferred by investors

100) If the dividend of a stock is \$20.00 and its dividend yield is 5.00%, then the price of the stock is

- A) \$1.00.
- B) \$2.00.
- C) \$3.00.
- D) \$4.00.
- E) \$8.00.

101) The first-time sale of stocks and bonds directly to the public is called a

- A) primary sale.
- B) new issue.
- C) follow-on offering.
- D) preliminary bid.
- E) fresh deal.

102) Clothes Horse is a national chain of clothing stores that is offering its stock to the public for the first time. Which of the following does this scenario best describe?

- A) an initial public offering
- B) a public debut
- C) a public premiere
- D) a new issue
- E) a public issue

103) Which of the following is a difference between primary and secondary markets?

- A) In secondary markets, investors trade with companies that issue stocks and bonds; whereas in primary markets, investors can trade their securities with other investors.
- B) Primary market transactions raise cash for the issuing corporations, whereas secondary market transactions do not.
- C) Primary markets include stock exchanges and over-the-counter markets, while secondary markets are where firms raise financial capital.
- D) Primary markets are private, while secondary markets are public.
- E) Primary markets allow investors to trade with other investors, while secondary markets allow corporations to sell new issues of stocks and bonds directly to the public and to institutions.

104) Corporations usually employ _____ to help sell their securities in the primary market.

- A) investment banking firms
- B) capital budgeters
- C) commercial banks
- D) over-the-counter agencies
- E) stock brokers

105) Danielle is an investor who wants to sell her stocks and bonds to other investors. Which of the following provides a mechanism for her to buy and sell stocks and bonds?

- A) prediction markets
- B) securities markets
- C) primary markets
- D) futures markets
- E) foreign-exchange markets

106) The two biggest stock markets in the United States are the

- A) American Stock Exchange and the New York Stock Exchange.
- B) Chicago Stock Exchange and the International Securities Exchange.
- C) New York Stock Exchange and the NASDAQ market.
- D) Southeast Regional Stock Exchange and the Chicago Board Options Exchange.
- E) American Stock Exchange and the NASDAQ market.

107) Which of the following is a similarity between the New York Stock Exchange (NYSE) and the NASDAQ market?

- A) Recently, both have become privately traded companies.
- B) Previously, they were for-profit companies, but now, they are not-for-profit organizations.
- C) Both exchanges bought or merged with electronic exchanges.
- D) Traditionally, both have been electronic markets.
- E) Traditionally, both have been floor-traded markets.

108) The over-the-counter securities market

- A) does not trade corporate bonds.
- B) accounts for the least total dollar value of all of the secondary markets.
- C) does not include illiquid bank stocks.
- D) does not have a central location.
- E) is similar to organized stock exchanges.

109) Carl is a dealer who trades small stocks and illiquid bank stocks using his computer. He trades with other dealers all over the country without having to go to a physical location. Which type of market does this scenario best describe?

- A) stock markets
- B) primary markets
- C) over-the-counter markets
- D) foreign-exchange markets
- E) futures markets

110) Gloria is an investor who buys securities when everyone else is panicked and prices are low. As a result, she is considered a _____ investor.

- A) conservative
- B) contrarian
- C) short-term
- D) smart
- E) prime

111) _____ stocks were responsible for the huge increase in stock prices in the period between 1982 and 2000.

- A) Manufacturing
- B) Automobile
- C) Banking
- D) Clothing
- E) Technology

Essay Questions

112) Briefly describe a lockbox.

113) What is the difference between secured loans and unsecured loans?

114) Explain the risk factors a firm must assess when considering an investment in a new asset.

115) Explain the five types of bonds. How do they differ?

116) Discuss securities markets. How are securities sold in primary and secondary markets?