

1. Financial assets represent _____ of total assets of U.S. households.
 - A. over 60%
 - B. over 90%
 - C. under 10%
 - D. about 30%

2. Real assets in the economy include all but which one of the following?
 - A. Land
 - B. Buildings
 - C. Consumer durables
 - D. Common stock

3. Net worth represents _____ of the liabilities and net worth of commercial banks.
 - A. about 50%
 - B. about 90%
 - C. about 10%
 - D. about 30%

4. According to the Flow of Funds Accounts of the United States, the largest single asset of U.S. households is _____.
 - A. mutual fund shares
 - B. real estate
 - C. pension reserves
 - D. corporate equity

5. According to the Flow of Funds Accounts of the United States, the largest liability of U.S. households is _____.
 - A. mortgages
 - B. consumer credit
 - C. bank loans
 - D. gambling debts

6. _____ is not a derivative security.
 - A. A share of common stock
 - B. A call option
 - C. A futures contract
 - D. All of the above are derivative securities.

7. According to the Flow of Funds Accounts of the United States, the largest financial asset of U.S. households is ____.
- A. mutual fund shares
 - B. corporate equity
 - C. pension reserves
 - D. personal trusts
8. 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 overvalued securities
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III
9. 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
10. Which of the following is not a money market security?
- A. U.S. Treasury bill
 - B. Six month maturity certificate of deposit
 - C. Common stock
 - D. Banker's acceptance
11. _____ 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
12. 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

13. _____ are examples of financial intermediaries.
- A. Commercial banks
 - B. Insurance companies
 - C. Investment companies
 - D. All of the above are financial intermediaries
14. 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
15. 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
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16. _____ was the first to introduce mortgage pass-through securities.
- A. Chase Manhattan
 - B. Citicorp
 - C. FNMA
 - D. GNMA
17. Security selection refers to the _____.
- A. allocation of the investment portfolio across broad asset classes
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18. _____ is an example of an agency problem.
- A. Managers engage in empire building
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- A. Tying income of managers to success of the firm
 - B. Directors defending top management
 - C. Anti takeover strategies
 - D. Straight voting method of electing the board of directors

20. _____ are real assets.
- A. Bonds
 - B. Production equipment
 - C. Stocks
 - D. Commercial paper
21. _____ portfolio construction starts with selecting attractively priced securities.
- A. Bottom-up
 - B. Top-down
 - C. Upside-down
 - D. Side-to-side
22. In a capitalist system capital resources are primarily allocated by _____.
- A. governments
 - B. the SEC
 - C. financial markets
 - D. investment bankers
23. A _____ represents an ownership share in a corporation.
- A. call option
 - B. common stock
 - C. fixed-income security
 - D. preferred stock
24. 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
25. A bond issue is broken up so that some investors will receive interest payments while others will receive principal payments. This is an example of _____.
- A. bundling
 - B. credit enhancement
 - C. securitization
 - D. unbundling
26. _____ portfolio management calls for holding diversified portfolios without spending effort or resources attempting to improve investment performance through security analysis.
- A. Active
 - B. Momentum
 - C. Passive
 - D. Market timing

27. Financial markets allow for all but which one of the following?
- A. Shift consumption through time from higher income periods to lower
 - B. Price securities according to their riskiness
 - C. Channel funds from lenders of funds to borrowers of funds
 - D. Allow most participants to routinely earn high returns with low risk
28. Financial intermediaries exist because small investors cannot efficiently _____.
- A. diversify their portfolios
 - B. gather information
 - C. monitor their portfolios
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29. Methods to encourage managers to act in shareholders' best interest include
- I. Threat of takeover
 - II. Proxy fights for control of the Board of Directors
 - III. Tying managers' compensation to stock price performance
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III
30. Firms that specialize in helping companies raise capital by selling securities to the public are called _____.
- A. pension funds
 - B. investment banks
 - C. savings banks
 - D. REITs
31. In securities markets, there should be a risk-return trade-off with higher-risk assets having _____ expected returns than lower-risk assets.
- A. higher
 - B. lower
 - C. the same
 - D. Can't tell from the information given
32. _____ are an indirect way U.S. investors can invest in foreign companies.
- A. ADRs
 - B. IRAs
 - C. SDRs
 - D. CPCs
33. Security selection refers to _____.
- A. choosing specific securities within each asset-class
 - B. deciding how much to invest in each asset-class
 - C. deciding how much to invest in the market portfolio versus the riskless asset
 - D. deciding how much to hedge

34. An example of a derivative security is _____.
- A. a common share of General Motors
 - B. a call option on Intel stock
 - C. a Ford bond
 - D. a U.S. Treasury bond
35. _____ portfolio construction starts with asset allocation.
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 - B. Top-down
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 - D. Side-to-side
36. Which one of the following firms falsely claimed to have a \$4.8 billion bank account at Bank of America and vastly understated its debts, eventually resulting in the firm's bankruptcy?
- A. WorldCom
 - B. Enron
 - C. Parmalat
 - D. Global Crossing
37. Debt securities promise _____.
- I. a fixed stream of income
 - II. a stream of income that is determined according to a specific formula
 - III. a share in the profits of the issuing entity
- A. I only
 - B. I or II only
 - C. I and III only
 - D. II or III only
38. The Sarbanes-Oxley Act tightened corporate governance rules by requiring all but which one of the following?
- A. Required corporations to have more independent directors
 - B. Required the CFO to personally vouch for the corporation's financial statements
 - C. Required that firms could no longer employ investment bankers to sell securities to the public
 - D. The creation of a new board to oversee the auditing of public companies
39. The success of common stock investments depends on the success of _____.
- A. derivative securities
 - B. fixed income securities
 - C. the firm and its real assets
 - D. government methods of allocating capital
40. The historical average rate of return on the large company stocks since 1926 has been
- A. 5%
 - B. 8%
 - C. 12%
 - D. 20%

41. The average rate of return on U.S. Treasury bills since 1926 was _____.
- A. 0.5%
 - B. 2.4%
 - C. 3.8%
 - D. 6.0%
42. An example of a real asset is _____.
- I. a college education
 - II. customer goodwill
 - III. a patent
- A. I only
 - B. II only
 - C. I and III only
 - D. I, II and III
43. The 2002 law designed to improve corporate governance is titled the
- A. Pension Reform Act
 - B. ERISA
 - C. Financial Services Modernization Act
 - D. Sarbanes-Oxley Act
44. Which of the following is not a financial intermediary?
- A. a mutual fund
 - B. an insurance company
 - C. a real estate brokerage firm
 - D. a savings and loan company
45. The combined liabilities of American households represent approximately _____ percent of combined assets.
- A. 11%
 - B. 21%
 - C. 25%
 - D. 33%
46. In 2008 real assets represented approximately _____ percent of the total asset holdings of American households.
- A. 37%
 - B. 42%
 - C. 48%
 - D. 55%
47. In 2008 mortgages represented approximately _____ percent of total liabilities and net worth of American households.
- A. 12%
 - B. 15%
 - C. 28%
 - D. 42%

48. Liabilities equal approximately _____ of total assets for nonfinancial U.S. businesses.
- A. 10%
 - B. 25%
 - C. 44%
 - D. 75%
49. Which of the following is not an example of a financial intermediary?
- A. Goldman Sachs
 - B. Allstate Insurance
 - C. First Interstate Bank
 - D. IBM
50. Real assets represent about _____ of total assets for financial institutions.
- A. 1%
 - B. 15%
 - C. 25%
 - D. 40%
51. Money Market securities are characterized by _____.
- I. maturity less than one year
 - II. safety of the principal investment
 - III. low rates of return
- A. I only
 - B. I and II only
 - C. I and III only
 - D. I, II and III
52. After much investigation an investor finds that Intel stock is currently under priced. This is an example of _____.
- A. asset allocation
 - B. security analysis
 - C. top down portfolio management
 - D. passive management
53. After considering current market conditions an investor decides to place 60% of their funds in equities and the rest in bonds. This is an example of
- A. asset allocation
 - B. security analysis
 - C. top down portfolio management
 - D. passive management
54. Suppose an investor is considering one of two investments which are identical in all respects except for risk. If the investor anticipates a fair return for the risk of the security they invest in they can expect to
- A. earn no more than the Treasury bill rate on either security
 - B. pay less for the security that has higher risk
 - C. pay less for the security that has lower risk
 - D. earn more if interest rates are lower

55. The efficient markets hypothesis suggests that _____.
- A. active portfolio management strategies are the most appropriate investment strategies
 - B. passive portfolio management strategies are the most appropriate investment strategies
 - C. either active or passive strategies may be appropriate, depending on the expected direction of the market
 - D. a bottom up approach is the most appropriate investment strategy
56. In a perfectly efficient market the best investment strategy is probably a/an
- A. active strategy
 - B. passive strategy
 - C. asset allocation
 - D. market timing
57. An important trend that has changed the contemporary investment market is _____.
- A. financial engineering
 - B. globalization
 - C. securitization
 - D. all three of the other answers
58. Securitization refers to the creation of new securities by _____.
- A. selling individual cash flows of a security or loan
 - B. repackaging individual cash flows of a security or loan into a new payment pattern
 - C. taking an illiquid asset and converting it into a marketable security
 - D. selling financial services overseas as well as in the U.S.
59. Brady bonds were an example of _____.
- A. securitization
 - B. mortgagization
 - C. bundling
 - D. pass through securities
60. Individuals may find it more advantageous to purchase claims from a financial intermediary rather than directly purchasing claims in capital markets because
- I. intermediaries are better diversified than most individuals
 - II. intermediaries can exploit economies of scale in investing that individual investors cannot
 - III. intermediated investments usually offer higher rates of return than direct capital market claims
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III
61. Surf City Software Company develops new surf forecasting software. It sells the software to Microsoft in exchange for 1000 shares of Microsoft common stock. Surf City Software has exchanged a _____ asset for a _____ asset in this transaction.
- A. real, real
 - B. financial, financial
 - C. real, financial
 - D. financial, real

62. Stone Harbor Products takes out a bank loan. It receives \$100,000 and signs a promissory note to pay back the loan over 5 years.
- A. A new financial asset was created in this transaction.
 - B. A financial asset was traded for a real asset in this transaction.
 - C. A financial asset was destroyed in this transaction.
 - D. A real asset was created in this transaction.
63. Which of the following firms was not engaged in a major accounting scandal between 2000 and 2005?
- A. General Electric
 - B. Parmalat
 - C. Enron
 - D. WorldCom
64. Accounting scandals can often be attributed to a particular concept in the study of finance known as the
- A. agency problem
 - B. risk - return trade - off
 - C. allocation of risk
 - D. securitization
65. An intermediary that pools and manage funds for many investors is called a/an _____.
- A. investment company
 - B. savings and loan
 - C. investment banker
 - D. ADR
66. Financial institutions that specialize in assisting corporations in primary market transactions are called _____.
- A. mutual funds
 - B. investment bankers
 - C. pension funds
 - D. globalization specialists
67. WEBS allow investors to _____.
- A. invest in U.S. mortgage backed securities
 - B. invest in an individual foreign stock
 - C. invest in a portfolio of foreign stocks
 - D. avoid any exposure to foreign exchange risk
68. In 2008 the largest corporate bankruptcy in the U.S. history involved the investment banking firm of _____.
- A. Goldman Sachs
 - B. Lehman Brothers
 - C. Morgan Stanley
 - D. Merrill Lynch

69. The inability of shareholders to influence the decisions of managers, despite overwhelming shareholder support, is a breakdown in what process or mechanism?
- A. Auditing
 - B. Public finance
 - C. Corporate governance
 - D. Public reporting
70. Real assets are _____.
- A. are assets used to produce goods and services
 - B. always the same as financial assets
 - C. always equal to liabilities
 - D. claims on company's income
71. A major cause of mortgage market meltdown in 2007 and 2008 was linked to _____.
- A. globalization
 - B. securitization
 - C. negative analyst recommendations
 - D. online trading
72. In recent years the greatest dollar amount of securitization occurred for which type loan?
- A. Home mortgages
 - B. Credit card debt
 - C. Automobile loans
 - D. Equipment leasing
73. The process of securitizing poor quality bank loans made to developing nations resulted in the creation of _____.
- A. Pass-throughs
 - B. Brady bonds
 - C. WEBS
 - D. FHLMC participation certificates
74. U.S. Treasury bonds pay interest every six months and repay the principal at maturity. The U.S. Treasury routinely sells individual interest payments on these bonds to investors. This is an example of _____.
- A. unbundling
 - B. bundling
 - C. securitization
 - D. security selection
75. An investment advisor has decided to purchase gold, real estate, stocks, and bonds in equal amounts. This decision reflects which part of the investment process?
- A. Asset allocation
 - B. Investment analysis
 - C. Portfolio analysis
 - D. Security selection

1 Key

1. Financial assets represent _____ of total assets of U.S. households.

- A. over 60%
- B. over 90%
- C. under 10%
- D. about 30%

*Bodie - Chapter 01 #1
Difficulty: Easy*

2. Real assets in the economy include all but which one of the following?

- A. Land
- B. Buildings
- C. Consumer durables
- D. Common stock

*Bodie - Chapter 01 #2
Difficulty: Easy*

3. Net worth represents _____ of the liabilities and net worth of commercial banks.

- A. about 50%
- B. about 90%
- C. about 10%
- D. about 30%

*Bodie - Chapter 01 #3
Difficulty: Medium*

4. According to the Flow of Funds Accounts of the United States, the largest single asset of U.S. households is _____.

- A. mutual fund shares
- B. real estate
- C. pension reserves
- D. corporate equity

*Bodie - Chapter 01 #4
Difficulty: Medium*

5. According to the Flow of Funds Accounts of the United States, the largest liability of U.S. households is _____.

- A. mortgages
- B. consumer credit
- C. bank loans
- D. gambling debts

*Bodie - Chapter 01 #5
Difficulty: Medium*

6. _____ is not a derivative security.
- A. A share of common stock
 - B. A call option
 - C. A futures contract
 - D. All of the above are derivative securities.

*Bodie - Chapter 01 #6
Difficulty: Easy*

7. According to the Flow of Funds Accounts of the United States, the largest financial asset of U.S. households is _____.
- A. mutual fund shares
 - B. corporate equity
 - C. pension reserves
 - D. personal trusts

*Bodie - Chapter 01 #7
Difficulty: Medium*

8. 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 overvalued securities
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III

*Bodie - Chapter 01 #8
Difficulty: Hard*

9. 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

*Bodie - Chapter 01 #9
Difficulty: Medium*

10. Which of the following is not a money market security?
- A. U.S. Treasury bill
 - B. Six month maturity certificate of deposit
 - C. Common stock
 - D. Banker's acceptance

*Bodie - Chapter 01 #10
Difficulty: Medium*

11. _____ 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

*Bodie - Chapter 01 #11
Difficulty: Medium*

12. 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**

*Bodie - Chapter 01 #12
Difficulty: Hard*

13. _____ are examples of financial intermediaries.
- A. Commercial banks
 - B. Insurance companies
 - C. Investment companies
 - D. All of the above are financial intermediaries**

*Bodie - Chapter 01 #13
Difficulty: Easy*

14. 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

*Bodie - Chapter 01 #14
Difficulty: Easy*

15. 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

*Bodie - Chapter 01 #15
Difficulty: Medium*

16. _____ was the first to introduce mortgage pass-through securities.

- A. Chase Manhattan
- B. Citicorp
- C. FNMA
- D. GNMA**

*Bodie - Chapter 01 #16
Difficulty: Easy*

17. 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

*Bodie - Chapter 01 #17
Difficulty: Medium*

18. _____ is an example of an agency problem.

- A. Managers engage in empire building
- B. Managers protect their jobs by avoiding risky projects
- C. Managers over consume luxuries such as corporate jets
- D. All of the answers provide examples of agency problems**

*Bodie - Chapter 01 #18
Difficulty: Easy*

19. _____ is a mechanism to mitigate potential agency problems.

- A. Tying income of managers to success of the firm**
- B. Directors defending top management
- C. Anti takeover strategies
- D. Straight voting method of electing the board of directors

*Bodie - Chapter 01 #19
Difficulty: Hard*

20. _____ are real assets.

- A. Bonds
- B. Production equipment**
- C. Stocks
- D. Commercial paper

*Bodie - Chapter 01 #20
Difficulty: Easy*

21. _____ portfolio construction starts with selecting attractively priced securities.

- A. Bottom-up**
- B. Top-down
- C. Upside-down
- D. Side-to-side

*Bodie - Chapter 01 #21
Difficulty: Easy*

22. In a capitalist system capital resources are primarily allocated by _____.
- A. governments
 - B. the SEC
 - C.** financial markets
 - D. investment bankers

*Bodie - Chapter 01 #22
Difficulty: Easy*

23. A _____ represents an ownership share in a corporation.
- A. call option
 - B.** common stock
 - C. fixed-income security
 - D. preferred stock

*Bodie - Chapter 01 #23
Difficulty: Easy*

24. 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

*Bodie - Chapter 01 #24
Difficulty: Easy*

25. A bond issue is broken up so that some investors will receive interest payments while others will receive principal payments. This is an example of _____.
- A. bundling
 - B. credit enhancement
 - C. securitization
 - D.** unbundling

*Bodie - Chapter 01 #25
Difficulty: Easy*

26. _____ portfolio management calls for holding diversified portfolios without spending effort or resources attempting to improve investment performance through security analysis.
- A. Active
 - B. Momentum
 - C.** Passive
 - D. Market timing

*Bodie - Chapter 01 #26
Difficulty: Easy*

27. Financial markets allow for all but which one of the following?
- A. Shift consumption through time from higher income periods to lower
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 - D. Allow most participants to routinely earn high returns with low risk**

*Bodie - Chapter 01 #27
Difficulty: Moderate*

28. Financial intermediaries exist because small investors cannot efficiently _____.
- A. diversify their portfolios
 - B. gather information
 - C. monitor their portfolios
 - D. all of the answers provide reasons why**

*Bodie - Chapter 01 #28
Difficulty: Easy*

29. Methods to encourage managers to act in shareholders' best interest include
- I. Threat of takeover
 - II. Proxy fights for control of the Board of Directors
 - III. Tying managers' compensation to stock price performance
- A. I only
 - B. I and II only
 - C. II and III only
 - D. I, II and III**

*Bodie - Chapter 01 #29
Difficulty: Easy*

30. Firms that specialize in helping companies raise capital by selling securities to the public are called _____.
- A. pension funds
 - B. investment banks**
 - C. savings banks
 - D. REITs

*Bodie - Chapter 01 #30
Difficulty: Easy*

31. In securities markets, there should be a risk-return trade-off with higher-risk assets having _____ expected returns than lower-risk assets.
- A. higher**
 - B. lower
 - C. the same
 - D. Can't tell from the information given

*Bodie - Chapter 01 #31
Difficulty: Easy*

32. _____ are an indirect way U.S. investors can invest in foreign companies.

- A.** ADRs
- B. IRAs
- C. SDRs
- D. CPCs

*Bodie - Chapter 01 #32
Difficulty: Easy*

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- B. deciding how much to invest in each asset-class
- C. deciding how much to invest in the market portfolio versus the riskless asset
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*Bodie - Chapter 01 #33
Difficulty: Easy*

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- B.** a call option on Intel stock
- C. a Ford bond
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*Bodie - Chapter 01 #34
Difficulty: Easy*

35. _____ portfolio construction starts with asset allocation.

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- B.** Top-down
- C. Upside-down
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*Bodie - Chapter 01 #35
Difficulty: Easy*

36. Which one of the following firms falsely claimed to have a \$4.8 billion bank account at Bank of America and vastly understated its debts, eventually resulting in the firm's bankruptcy?

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- B. Enron
- C.** Parmalat
- D. Global Crossing

*Bodie - Chapter 01 #36
Difficulty: Medium*

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B. I or II only
C. I and III only
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*Bodie - Chapter 01 #37
Difficulty: Medium*

38. The Sarbanes-Oxley Act tightened corporate governance rules by requiring all but which one of the following?
- A. Required corporations to have more independent directors
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 - C. Required that firms could no longer employ investment bankers to sell securities to the public**
 - D. The creation of a new board to oversee the auditing of public companies

*Bodie - Chapter 01 #38
Difficulty: Medium*

39. The success of common stock investments depends on the success of _____.
- A. derivative securities
 - B. fixed income securities
 - C. the firm and its real assets**
 - D. government methods of allocating capital

*Bodie - Chapter 01 #39
Difficulty: Easy*

40. The historical average rate of return on the large company stocks since 1926 has been
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*Bodie - Chapter 01 #40
Difficulty: Medium*

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- A. 0.5%
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*Bodie - Chapter 01 #41
Difficulty: Medium*

42. An example of a real asset is _____.
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*Bodie - Chapter 01 #42
Difficulty: Medium*

43. The 2002 law designed to improve corporate governance is titled the
- A. Pension Reform Act
 - B. ERISA
 - C. Financial Services Modernization Act
 - D.** Sarbanes-Oxley Act

*Bodie - Chapter 01 #43
Difficulty: Easy*

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 - B. an insurance company
 - C.** a real estate brokerage firm
 - D. a savings and loan company

*Bodie - Chapter 01 #44
Difficulty: Medium*

45. The combined liabilities of American households represent approximately _____ percent of combined assets.
- A. 11%
 - B.** 21%
 - C. 25%
 - D. 33%

*Bodie - Chapter 01 #45
Difficulty: Medium*

46. In 2008 real assets represented approximately _____ percent of the total asset holdings of American households.
- A.** 37%
 - B. 42%
 - C. 48%
 - D. 55%

*Bodie - Chapter 01 #46
Difficulty: Medium*

47. In 2008 mortgages represented approximately _____ percent of total liabilities and net worth of American households.
- A. 12%
 - B. 15%**
 - C. 28%
 - D. 42%

*Bodie - Chapter 01 #47
Difficulty: Medium*

48. Liabilities equal approximately _____ of total assets for nonfinancial U.S. businesses.
- A. 10%
 - B. 25%
 - C. 44%**
 - D. 75%

*Bodie - Chapter 01 #48
Difficulty: Medium*

49. Which of the following is not an example of a financial intermediary?
- A. Goldman Sachs
 - B. Allstate Insurance
 - C. First Interstate Bank
 - D. IBM**

*Bodie - Chapter 01 #49
Difficulty: Easy*

50. Real assets represent about _____ of total assets for financial institutions.
- A. 1%**
 - B. 15%
 - C. 25%
 - D. 40%

*Bodie - Chapter 01 #50
Difficulty: Medium*

51. Money Market securities are characterized by _____.
- I. maturity less than one year
 - II. safety of the principal investment
 - III. low rates of return
- A. I only
 - B. I and II only
 - C. I and III only
 - D. I, II and III**

*Bodie - Chapter 01 #51
Difficulty: Easy*

52. After much investigation an investor finds that Intel stock is currently under priced. This is an example of _____.
- A. asset allocation
 - B. security analysis**
 - C. top down portfolio management
 - D. passive management

*Bodie - Chapter 01 #52
Difficulty: Medium*

53. After considering current market conditions an investor decides to place 60% of their funds in equities and the rest in bonds. This is an example of
- A. asset allocation**
 - B. security analysis
 - C. top down portfolio management
 - D. passive management

*Bodie - Chapter 01 #53
Difficulty: Medium*

54. Suppose an investor is considering one of two investments which are identical in all respects except for risk. If the investor anticipates a fair return for the risk of the security they invest in they can expect to
- A. earn no more than the Treasury bill rate on either security
 - B. pay less for the security that has higher risk**
 - C. pay less for the security that has lower risk
 - D. earn more if interest rates are lower

*Bodie - Chapter 01 #54
Difficulty: Hard*

55. The efficient markets hypothesis suggests that _____.
- A. active portfolio management strategies are the most appropriate investment strategies
 - B. passive portfolio management strategies are the most appropriate investment strategies**
 - C. either active or passive strategies may be appropriate, depending on the expected direction of the market
 - D. a bottom up approach is the most appropriate investment strategy

*Bodie - Chapter 01 #55
Difficulty: Easy*

56. In a perfectly efficient market the best investment strategy is probably a/an
- A. active strategy
 - B. passive strategy**
 - C. asset allocation
 - D. market timing

*Bodie - Chapter 01 #56
Difficulty: Easy*

57. An important trend that has changed the contemporary investment market is _____.
- A. financial engineering
 - B. globalization
 - C. securitization
 - D. all three of the other answers**

*Bodie - Chapter 01 #57
Difficulty: Easy*

58. Securitization refers to the creation of new securities by _____.
- A. selling individual cash flows of a security or loan
 - B. repackaging individual cash flows of a security or loan into a new payment pattern
 - C. taking an illiquid asset and converting it into a marketable security**
 - D. selling financial services overseas as well as in the U.S.

*Bodie - Chapter 01 #58
Difficulty: Easy*

59. Brady bonds were an example of _____.
- A. securitization
 - B. mortgagization**
 - C. bundling
 - D. pass through securities

*Bodie - Chapter 01 #59
Difficulty: Medium*

60. Individuals may find it more advantageous to purchase claims from a financial intermediary rather than directly purchasing claims in capital markets because
- I. intermediaries are better diversified than most individuals
 - II. intermediaries can exploit economies of scale in investing that individual investors cannot
 - III. intermediated investments usually offer higher rates of return than direct capital market claims
- A. I only
 - B. I and II only**
 - C. II and III only
 - D. I, II and III

*Bodie - Chapter 01 #60
Difficulty: Hard*

61. Surf City Software Company develops new surf forecasting software. It sells the software to Microsoft in exchange for 1000 shares of Microsoft common stock. Surf City Software has exchanged a _____ asset for a _____ asset in this transaction.
- A. real, real
 - B. financial, financial
 - C. real, financial**
 - D. financial, real

*Bodie - Chapter 01 #61
Difficulty: Medium*

62. Stone Harbor Products takes out a bank loan. It receives \$100,000 and signs a promissory note to pay back the loan over 5 years.
- A. A new financial asset was created in this transaction.
 - B. A financial asset was traded for a real asset in this transaction.
 - C. A financial asset was destroyed in this transaction.
 - D. A real asset was created in this transaction.

*Bodie - Chapter 01 #62
Difficulty: Hard*

63. Which of the following firms was not engaged in a major accounting scandal between 2000 and 2005?
- A. General Electric
 - B. Parmalat
 - C. Enron
 - D. WorldCom

*Bodie - Chapter 01 #63
Difficulty: Easy*

64. Accounting scandals can often be attributed to a particular concept in the study of finance known as the
- A. agency problem
 - B. risk - return trade - off
 - C. allocation of risk
 - D. securitization

*Bodie - Chapter 01 #64
Difficulty: Easy*

65. An intermediary that pools and manage funds for many investors is called a/an _____.
- A. investment company
 - B. savings and loan
 - C. investment banker
 - D. ADR

*Bodie - Chapter 01 #65
Difficulty: Easy*

66. Financial institutions that specialize in assisting corporations in primary market transactions are called _____.
- A. mutual funds
 - B. investment bankers
 - C. pension funds
 - D. globalization specialists

*Bodie - Chapter 01 #66
Difficulty: Easy*

67. WEBS allow investors to _____.
- A. invest in U.S. mortgage backed securities
 - B. invest in an individual foreign stock
 - C.** invest in a portfolio of foreign stocks
 - D. avoid any exposure to foreign exchange risk

*Bodie - Chapter 01 #67
Difficulty: Medium*

68. In 2008 the largest corporate bankruptcy in the U.S. history involved the investment banking firm of _____.
- A. Goldman Sachs
 - B.** Lehman Brothers
 - C. Morgan Stanley
 - D. Merrill Lynch

*Bodie - Chapter 01 #68
Difficulty: Medium*

69. The inability of shareholders to influence the decisions of managers, despite overwhelming shareholder support, is a breakdown in what process or mechanism?
- A. Auditing
 - B. Public finance
 - C.** Corporate governance
 - D. Public reporting

*Bodie - Chapter 01 #69
Difficulty: Medium*

70. Real assets are _____.
- A.** are assets used to produce goods and services
 - B. always the same as financial assets
 - C. always equal to liabilities
 - D. claims on company's income

*Bodie - Chapter 01 #70
Difficulty: Easy*

71. A major cause of mortgage market meltdown in 2007 and 2008 was linked to _____.
- A. globalization
 - B.** securitization
 - C. negative analyst recommendations
 - D. online trading

*Bodie - Chapter 01 #71
Difficulty: Medium*

72. In recent years the greatest dollar amount of securitization occurred for which type loan?

- A. Home mortgages
- B. Credit card debt
- C. Automobile loans
- D. Equipment leasing

*Bodie - Chapter 01 #72
Difficulty: Medium*

73. The process of securitizing poor quality bank loans made to developing nations resulted in the creation of _____.

- A. Pass-throughs
- B. Brady bonds
- C. WEBS
- D. FHLMC participation certificates

*Bodie - Chapter 01 #73
Difficulty: Medium*

74. U.S. Treasury bonds pay interest every six months and repay the principal at maturity. The U.S. Treasury routinely sells individual interest payments on these bonds to investors. This is an example of _____.

- A. unbundling
- B. bundling
- C. securitization
- D. security selection

*Bodie - Chapter 01 #74
Difficulty: Medium*

75. An investment advisor has decided to purchase gold, real estate, stocks, and bonds in equal amounts. This decision reflects which part of the investment process?

- A. Asset allocation
- B. Investment analysis
- C. Portfolio analysis
- D. Security selection

*Bodie - Chapter 01 #75
Difficulty: Medium*

1 Summary

<u>Category</u>	<u># of Questions</u>
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