

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 1) A non-interest-bearing chequing account is still considered an investment.

Answer: True ☒ False

- 2) Land and buildings are examples of real property investments.

Answer: ☒ True ☐ False

- 3) Securities are investments issued by firms, governments, or other organizations that represent a financial claim on the issuer's resources.

Answer: ☒ True ☐ False

- 4) A Government of Canada bond is an example of a debt security.

Answer: ☒ True ☐ False

- 5) Most sources of investment information are in print format, expensive, and difficult to access.

Answer: True ☒ False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 6) Which of the following is NOT an investment as defined in the text?

- | | |
|--|---|
| A) a Government of Canada bond | B) a new automobile |
| C) a certificate of deposit issued by a bank | D) a mutual fund held in a retirement account |

Answer: B

- 7) Stocks are a(n) _____ investment representing _____ of a business.

- | | |
|----------------------|------------------------|
| A) direct; ownership | B) direct; debt |
| C) indirect; debt | D) indirect; ownership |

Answer: A

- 8) An exchange traded fund that invests in the stocks of large corporations is an example of

- | | |
|-------------------------|---------------------------|
| A) indirect investment. | B) tangible investment. |
| C) direct investment. | D) derivative investment. |

Answer: A

- 9) Which of the following has declined in both the US and Canada in recent years?

- A) the percentage of foreign stocks held in typical portfolios
- B) direct ownership of stock by individual investors
- C) the timeliness of information available to investors
- D) institutional ownership of common stocks

Answer: B

- 10) Which of the following has increased in both the US and Canada in recent years?

- A) institutional ownership of common stocks
- B) indirect ownership of stocks through mutual funds and ETFs.
- C) the percentage of domestic stocks held in typical portfolios
- D) direct ownership of stock by individual investors

Answer: B

- 11) Debt represents funds loaned in exchange for
- A) dividend income and an ownership interest in the firm.
 - B) interest income and the repayment of the loan principal.
 - C) dividend income and the repayment of the loan principal.
 - D) interest income and a partial ownership interest in the firm.

Answer: B

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 12) Institutional investors manage money for businesses and nonprofit organizations, but not for individuals.

Answer: True ☒ False

- 13) Institutional investors are individuals who invest indirectly through financial institutions.

Answer: True ☒ False

- 14) Banks and insurance companies are examples of institutional investors.

Answer: ☒ True False

- 15) In the financial markets, individuals are net suppliers of funds.

Answer: ☒ True False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 16) The government is generally

- A) the owner of the financial market.
- B) not involved in the financial market.
- C) a supplier of funds to the financial market.
- D) a demander of funds in the financial market.

Answer: D

- 17) On a net basis, funds in the financial markets are generally supplied by

- A) both individuals and business firms.
- B) business firms.
- C) the government.
- D) individuals.

Answer: D

- 18) Stocks of large publicly traded companies

- A) are rarely traded.
- B) rarely decline in value.
- C) are illiquid.
- D) are highly liquid.

Answer: D

- 19) Which of the following are true concerning institutional investors?

- I. Institutional investors are professionals who manage money for other people.
- II. Banks, insurance companies and mutual funds are all institutional investors.
- III. Institutional investors are individuals who invest indirectly through financial institutions.
- IV. Institutional investors invest large sums of money.

- A) I and II only
- B) I, II and IV only
- C) II, III and IV only
- D) I, II, III and IV

Answer: B

- 20) Which of the following is NOT traded in the securities markets?

- A) bonds
- B) derivatives
- C) stocks
- D) real estate

Answer: D

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

21) Describe the major differences between individual and institutional investors.

Answer: Individual investors manage their own funds to achieve individual goals such as increasing financial security or financing a comfortable retirement. Institutional investors, such as mutual funds and insurance companies, manage funds for individuals who lack the time or expertise to invest individually and for other institutions such as universities or charities.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

22) Bond investors lend their money for a fixed period of time and receive interest.

Answer: ☒ True ☐ False

23) A collection of securities designed to meet an investment goal is called a portfolio.

Answer: ☒ True ☐ False

24) Call options on common stock are a form of equity.

Answer: ☐ True ☒ False

25) An option to purchase common stock is a type of derivative security.

Answer: ☒ True ☐ False

26) Bonds represent a lower level of risk than do stocks in the same company.

Answer: ☒ True ☐ False

27) Exchange traded funds are similar to mutual funds but are traded like stocks.

Answer: ☒ True ☐ False

28) Mutual funds invest in diversified portfolios of securities.

Answer: ☒ True ☐ False

29) Bond prices rise as interest rates decline.

Answer: ☒ True ☐ False

30) Bond interest and stock dividends are different ways of distributing a corporation's earnings to its owners.

Answer: ☐ True ☒ False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

31) Which of the following is an example of a tangible asset?

- A) real estate B) stocks C) mutual funds D) bonds

Answer: A

32) Which of the following would be the least liquid investment?

- A) put options B) money market mutual funds
C) stocks D) real estate

Answer: D

33) Which of the following investments represents partial ownership of a corporation?

- A) commercial paper B) common stocks C) bonds D) mutual funds

Answer: B

- 34) Investors seeking a diversified, professionally managed portfolio of securities can purchase shares of
- A) convertible securities.
 - B) mutual funds.
 - C) insurance policies.
 - D) preferred stock.

Answer: B

- 35) The major difference between mutual funds and exchange traded funds (ETFs) is
- A) ETFs are actively managed.
 - B) ETFs can be bought or sold at their current price at any time during normal trading hours.
 - C) mutual fund portfolios are always based on one of the major market indexes.
 - D) ETFs invest in broadly diversified portfolios of securities.

Answer: B

- 36) One reason that passively managed mutual funds have grown in popularity relative to actively managed mutual funds is that
- A) active funds are too diversified.
 - B) passive fund returns are always higher.
 - C) passive fund expense ratios are lower.
 - D) active fund returns mimic a market index.

Answer: C

- 37) Over the past decade, passively managed index funds have
- A) grown quite a lot.
 - B) attracted almost 100% of investment dollars.
 - C) almost disappeared as a fund type.
 - D) declined in popularity.

Answer: A

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 38) Briefly describe three advantages of investing in mutual funds or exchange traded funds.

Answer: The investor does not need to spend a great deal of time researching individual securities. Small investors easily achieve diversification by investing indirectly in a broad portfolio of securities. The funds are managed by professionals who presumably have expertise in making investment decisions.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 39) Earning a high rate of return with little or no risk is a realistic investment goal.

Answer: True ☒ False

- 40) Under current tax laws, most taxpayers will pay a lower tax rate on capital gains than on dividends.

Answer: True ☒ False

- 41) Investors can postpone or avoid income taxes by investing through Registered Retirement Savings Plans.

Answer: ☒ True ☐ False

- 42) Under current laws, a couple filing jointly with a total income of \$75,000 would pay a 15% tax on capital gains.

Answer: True ☒ False

- 43) To qualify for long-term capital gains rates, a stock must be held for at least 12 months.

Answer: ☒ True ☐ False

- 44) Registered Retirement Savings Plans (RRSPs) allow individuals to defer taxes on the plan contributions until the funds are withdrawn from the retirement plan.

Answer: ☒ True ☐ False

45) Contributions to a TFSA are not tax deductible, but subsequent earnings and withdrawals are tax free.

Answer: ☒ True ☐ False

46) The taxes and tax credits are different for eligible dividends and non-eligible dividends in Canada.

Answer: ☒ True ☐ False

47) The average tax rate is the rate a person pays on their next dollar of income.

Answer: ☐ True ☒ False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

48) Which of the following represent investment goals?

- I. saving for major expenditures such as a house or education
- II. sheltering income from taxes
- III. increasing current income
- IV. saving funds for retirement

A) I and IV only

B) III and IV only

C) I, III and IV only

D) I, II, III and IV

Answer: D

49) In selecting investments consistent with your goals, you should consider

A) the pre-tax rate of return only.

B) risks, returns, and taxes.

C) rates of return and taxes only.

D) annual dividends and taxes only.

Answer: B

50) Alexandra purchased a stock one year ago at a price of \$64 a share. In the past year, she has received four quarterly dividends of \$1.50 each. Today she sold the stock for \$76 a share. Her capital gain per share is

A) \$(6.00).

B) \$6.00.

C) \$18.00.

D) \$12.00.

Answer: D

51) A well-conceived investment policy statement will take into account

A) the types of investments the investor is willing to consider.

B) the investor's current age and economic situation.

C) the investor's preference for frequent or infrequent trading.

D) all of the above.

Answer: D

52) New investors with small amounts to invest should

A) invest all of their money in one high-quality stock.

B) avoid stock investments completely.

C) buy mutual funds or exchange traded funds (ETFs).

D) buy a portfolio of very low-priced stocks (penny stocks).

Answer: C

53) Research indicates that investors who monitor their portfolios less frequently

A) outperform those who hold investments for the long term and trade infrequently.

B) earn rates of return similar to those who hold investments for the long term and trade infrequently.

C) tend to invest in riskier assets.

D) are more highly educated and in higher income brackets than those who hold investments for the long term and trade infrequently.

Answer: C

54)

<u>Table 1.2</u>	<u>2020 (due April 15, 2021)</u>	
<u>Tax rates</u>	<u>Individual Returns</u>	<u>Joint Returns</u>
<u>10%</u>	<u>\$0 to \$9,525</u>	<u>\$0 to \$19,050</u>
<u>12%</u>	<u>\$9,526 to \$38,700</u>	<u>\$19,051 to \$77,400</u>
<u>22%</u>	<u>\$38,701 to \$82,500</u>	<u>\$77,401 to \$165,000</u>
<u>24%</u>	<u>\$82,501 to \$157,500</u>	<u>\$165,001 to \$315,000</u>
<u>32%</u>	<u>\$157,501 to \$200,000</u>	<u>\$315,001 to \$400,000</u>
<u>35%</u>	<u>\$200,001 to \$500,000</u>	<u>\$400,001 to \$600,000</u>
<u>37%</u>	<u>Over \$500,000</u>	<u>Over \$600,000</u>

Josh earned \$82,500 in taxable income, all from wages and interest, and files an individual tax return. What is the amount of Josh's taxes for the year 2020? Round to the nearest dollar.

- A) \$12,285 B) \$18,150 C) \$14,090 D) \$13,750

Answer: C

55) Tax planning

- A) ignores the source of income and concentrates solely on the amount of income.
 B) is primarily done by individuals with incomes below \$200,000.
 C) is limited to reviewing income for the current year and determining how to minimize current taxes.
 D) guides investment activities to maximize after-tax returns over the long term for an acceptable level of risk.

Answer: D

56) Investors seeking to increase their wealth as quickly as possible would invest in

- A) government bonds and low-risk income stocks.
 B) corporate bonds and preferred stock.
 C) smaller companies pursuing rapid growth.
 D) large company stocks with high dividends.

Answer: C

57) A person's marginal tax rate is the rate they pay

- A) on the next dollar of income.
 B) only on earned income.
 C) on all income.
 D) only on investment income.

Answer: A

58) During which period are stock returns typically the lowest?

- A) during a recession
 B) 12 months after a recession
 C) 6 months before a recession
 D) there is no discernible pattern

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

59) Discuss the relationship between stock prices and investors' beliefs about the business cycle.

Answer: Stock prices tend to anticipate the economic conditions that investors expect in the future. When they believe that economic conditions will deteriorate and profits will decline, stock prices fall. When they expect an improving economy and higher corporate profits, stock prices rise.

60) What are some of the important prerequisites to investing?

Answer: Before entering into risky investments, individuals need to provide for the necessities of life such as housing, transportation, and taxes. They should have liquid assets available to meet unforeseen emergencies such as job loss, auto repairs or dental treatments. They should also have insurance for catastrophic events involving health or property.

61) Discuss the general investment philosophy and the types of investments preferred by investors in each phase of the life cycle.

Answer:

Life Cycle Phase	Philosophy	Types of Investments
Young investors	Growth	Growth stocks, options, and futures
Middle-aged investors	Growth and income	Higher quality stocks, preferred stocks, convertibles, high-grade bonds, and mutual funds
Retired investors	Preservation of capital and current income	Low risk stocks, short-term bonds, certificates of deposit

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

62) Government of Canada Treasury Bills mature in 1 year or less.

Answer: ☒ True ☐ False

63) Liquidity is the ability to convert an investment into cash quickly with little or no loss of value.

Answer: ☒ True ☐ False

64) Short-term investments generally provide liquidity, safety, and a high rate of return.

Answer: ☐ True ☒ False

65) Money market accounts, certificates of deposit, bonds and commercial paper are all forms of short-term investment vehicles.

Answer: ☐ True ☒ False

66) Investors can use short-term securities as a temporary place to "park" funds before deciding where to invest the money on a long-term basis.

Answer: ☒ True ☐ False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

67) The primary risk associated with a short-term investment is

A) default risk.

B) purchasing power risk.

C) economic risk.

D) interest rate risk.

Answer: B

68) Short-term investments

- I. provide liquidity.
- II. fill an important part of most investment programs.
- III. provide a high rate of return with low risk.
- IV. provide resources for emergencies.

A) I and IV only

B) II and IV only

C) I, II and IV only

D) I, II, III and IV

Answer: C

69) Which of the following short-term investments provide the most liquidity?

A) money market mutual funds

B) a chequing account

C) a corporate bond

D) a guaranteed investment certificate

Answer: B

70) Canada Deposit Insurance Corporation (CDIC) insures up to \$100,000 per account for

A) deposits in Savings Accounts.

B) chequing and savings accounts in Credit Unions.

C) deposits in Chequing Accounts.

D) all of the above.

Answer: D

71) Which of the following has the lowest level of risk?

A) banker's acceptance

B) commercial paper

C) Treasury bill

D) money market mutual fund account

Answer: C

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

72) Certified Financial Planners typically manage institutional portfolios.

Answer: True ☒ False

73) A major goal of corporate financial management is to increase the value of the firm to investors.

Answer: ☒ True False

74) Stringent regulations and vigorous enforcement have all but eliminated unethical behaviour by financial professionals in recent years.

Answer: True ☒ False

75) Insurance companies invest the premiums and fees collected from customers to neutralize the risks assumed from their clients.

Answer: ☒ True False

76) Chartered Financial Analyst (CFA) is a degree offered by several prestigious business schools.

Answer: True ☒ False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

77) Funds that merely track a broad index and make no attempt to identify undervalued or exceptional growth stocks are known as

A) passively managed funds.

B) equity funds.

C) actively managed funds.

D) hedge funds.

Answer: A

78) Jobs in which of the following fields require an understanding of the investment environment?

- I. commercial banking
- II. corporate finance
- III. financial planning
- IV. insurance

A) I and IV only

B) I, II and IV only

C) II, III and IV only

D) I, II, III and IV

Answer: D

79) A major function of investment banking firms is

- A) providing financial planning services to wealthy individuals.
- B) assisting businesses when they issue stocks and bonds.
- C) developing investment strategies to neutralize risk.
- D) All of these are major functions of investment banking firms.

Answer: D

80) Which of the following has set an outstanding example of ethical behaviour in the financial professions?

A) Ramalinga Raju of Satyam Computers

B) Hank Greenberg of AIG

C) Bernard Madoff of Madoff Securities

D) none of the above

Answer: D

81) In Canada, the most prestigious designation for financial planners is

A) IA.

B) CPA.

C) CFP.

D) CLU.

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

82) Briefly describe three different career paths that require a strong background in investments.

Answer: Students may discuss any of the following career paths. Answers will vary.

Responsibilities of commercial bankers may include portfolio management, managing short-term securities, and advising individuals as personal bankers.

Corporate financial managers must raise external funds through the debt and equity markets, manage short-term investments, and understand investor expectations for their business.

Financial planners assist individuals in choosing the investments that will help them meet their short- and long-term goals.

The insurance industry employs professionals to invest and manage the large sums collected from premiums.

Within the investment management industry, professionals may work as securities analysts, fund managers, or retail brokers.