Test Bank for Financial Management Principles and Applications 13th Titman

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Financial Management: Principles & Applications, 13e **(Titman)**
Chapter 2 Firms and the Financial Market

1) The principal savers in the financial markets are
A) businesses.
B) banks.
C) individuals.
D) governments.
Answer: C
Diff: 1
AACSB: 6. Reflective thinking
Question Status: Previous edition
Objective: 2.1 Describe the structure and functions of financial markets
Keywords: financial intermediaries
Principles: Principle 2: There Is a Risk-Return Tradeoff

2) The principal participants in in the financial markets are
A) businesses, banks, government.
B) borrowers, savers, financial institutions.
C) mutual finds, hedge funds, investment bankers.
D) dealers, brokers, regulators.
Answer: B
Diff: 1
AACSB: 6. Reflective thinking
Question Status: Revised
Objective: 2.1 Describe the structure and functions of financial markets
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3) Firms that wish to raise funds for investment purposes issue securities in the
A) primary and secondary markets.
B) primary markets.
C) secondary markets.
D) intermediary markets.
Answer: B
Diff: 1
AACSB: 7. Application of knowledge
Question Status: New question
Objective: 2.1 Describe the structure and functions of financial markets
Keywords: financial markets
Principles: Principle 3: Cash flows are the source of value

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4) Secondary markets
A) function as a place for smaller, less well-known firms to issue securities.
B) are an important vehicle for established firms to raise additional money for expansion.
C) are a means by which funds are cycled from savers to borrowers.
D) are concerned with the trading of previously issued securities between investors.
Answer: D
Diff: 1
AACSB: 7. Application of knowledge
Question Status: New question
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5) Financial intermediaries help bring savers and borrowers together.
Answer: TRUE
Diff: 1
AACSB: 6. Reflective thinking
Question Status: Previous edition
Objective: 2.1 Describe the structure and functions of financial markets
Keywords: financial intermediaries
Principles: Principle 2: There Is a Risk-Return Tradeoff

6) Individuals are often savers because they wish to save for such things as retirement, a down payment on a home or graduate school.
Answer: TRUE
Diff: 1
AACSB: 6. Reflective thinking
Question Status: Revised
Objective: 2.1 Describe the structure and functions of financial markets
Keywords: financial markets
Principles: Principle 2: There Is a Risk-Return Tradeoff

7) The purpose of financial markets is to bring borrowers and savers together.
Answer: TRUE
Diff: 1
AACSB: 6. Reflective thinking
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8) All of the following operate as financial intermediaries EXCEPT
A) commercial banks.
B) mutual funds.
C) insurance companies.
D) the U. S. Treasury
Answer: D
Diff: 1
AACSB: 6. Reflective thinking
Question Status: Revised
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
Keywords: financial intermediaries
Principles: Principle 3: Cash flows are the source of value

9) All of the following are true about insurance companies EXCEPT
A) They invest their reserves.
B) They may guarantee to reimburse lenders should lenders' loans go into default.
C) They participate in equipment leasing.
D) They may only invest their reserves in interest paying bank accounts under Federal law.
Answer: D
Diff: 1
AACSB: 6. Reflective thinking
Question Status: Previous edition
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
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Principles: Principle 3: Cash flows are the source of value

10) Which of the following is true regarding Investment Banks?
A) As a result of the financial crisis of 2008, all stand alone Investment banks either failed, were merged into commercial banks, or became commercial banks.
B) Under the Glass-Steagal act, commercial banks were allowed to operate as Investment banks.
C) When Glass-Steagal was repealed in 1999, commercial banks and Investment banks had to be separate entities.
D) As of 2010, stand alone Investment banks are numerous.
Answer: A
Diff: 2
AACSB: 6. Reflective thinking
Question Status: Previous edition
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
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11) Each of the following is true of Mutual Funds EXCEPT
A) Funds can be classified as load or no-load funds.
B) Mutual Fund shares must be bought from or sold to the Fund by investors.
C) An index fund is the fund with the highest expenses payable by investors.
D) The NAV is the total value of stock held by the fund divided by the number of outstanding shares in the mutual fund.
Answer: C
Diff: 1
AACSB: 6. Reflective thinking
Question Status: Previous edition
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
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12) Insurance companies have a great deal of money to invest because
A) there profit margins are so high.
B) because they are reluctant to cover insurable losses.
C) because they must hold large reserves to pay potential claims.
D) insurance do not actually have large sums to invest.
Answer: C
Diff: 1
AACSB: 6. Reflective thinking
Question Status: Previous edition
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13) All of the following are classified as non-bank financial intermediaries EXCEPT
A) stock brokerages.
B) investment banks.
C) insurance companies.
D) hedge funds.
Answer: A
Diff: 1
AACSB: 6. Reflective thinking
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14) Commercial banks in the U.S. often own the corporations they lend to.
Answer: FALSE
Diff: 1
AACSB: 6. Reflective thinking
Question Status: New question
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
Keywords: financial intermediaries
Principles: Principle 3: Cash flows are the source of value

15) All financial intermediaries are banks.
Answer: FALSE
Diff: 1
AACSB: 6. Reflective thinking
Question Status: Previous edition
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
Keywords: financial intermediaries
Principles: Principle 3: Cash flows are the source of value

16) Mutual Funds and ETFs provide the investor a chance to diversify without having to buy shares in numerous corporations.
Answer: TRUE
Diff: 2
AACSB: 6. Reflective thinking
Question Status: Previous edition
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
Keywords: financial intermediaries
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17) Private equity firms are financial intermediaries that are not traded on public capital markets.
Answer: TRUE
Diff: 1
AACSB: 6. Reflective thinking
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18) Capital markets are markets for short term debt instruments maturing in less than one year, and money markets are markets for long term debt instruments maturing in more than one year.
Answer: FALSE
Diff: 2
AACSB: 6. Reflective thinking
Question Status: Previous edition
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
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Principles: Principle 3: Cash flows are the source of value

19) Banks that are financial intermediaries generate earnings when they facilitate the transfer of money from savers to borrowers by paying savers a smaller return than they demand from borrowers.
Answer: TRUE
Diff: 2
AACSB: 6. Reflective thinking
Question Status: Previous edition
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
Keywords: financial intermediaries
Principles: Principle 3: Cash flows are the source of value

20) In Financial markets, borrowers and lenders most both be located in the same country.
Answer: FALSE
Diff: 1
AACSB: 6. Reflective thinking
Question Status: Previous edition
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
Keywords: financial intermediaries
Principles: Principle 3: Cash flows are the source of value

21) The difference between mutual funds and ETFs is that ETFs are traded on exchanges and mutual funds are not.
Answer: TRUE
Diff: 1
AACSB: 6. Reflective thinking
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22) Venture capital funds play an important role in the initial financing of new businesses.
Answer: TRUE
Diff: 1
AACSB: 6. Reflective thinking
Question Status: Previous edition
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
Keywords: financial intermediaries
Principles: Principle 3: Cash flows are the source of value

23) Banking regulations are essentially the same in all developed nations.
Answer: FALSE
Diff: 1
AACSB: 6. Reflective thinking
Question Status: New question
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
Keywords: financial intermediaries
Principles: Principle 5. Individuals respond to incentives.

24) Over the long term, mutual fund fee and expenses can have a significant impact on returns.
Answer: TRUE
Diff: 1
AACSB: 7. Application of knowledge
Question Status: New question
Objective: 2.2 Distinguish between commercial banks and other financial institutions in the financial marketplace.
Keywords: financial intermediaries
Principles: Principle 3: Cash flows are the source of value

25) Describe the costs and benefits to investors of owning Mutual Funds.
Answer: Owners of mutual fund shares get professional management of their portfolio, and get a diversified portfolio, as each mutual share is a share in the whole portfolio purchased by the mutual fund. In order to get these benefits, the investor must pay commissions upon purchase, and/or pay yearly management fees. The fees can significantly diminish the value of the shares of the mutual fund to the investor. An alternative for the investor is to buy an index fund, that is a fund that tracks an index such as the Dow Jones Industrial Average or the S & P 500. An index fund tracking the DJIA, for example, will automatically purchase stocks in the same percentage that they are used to determine the Dow Jones Industrial Average. Owning an index fund reduces costs, because there is no need to have professionals running the portfolio.
Diff: 2
AACSB: 6. Reflective thinking
Question Status: Previous edition
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26) Which of the following is true about bonds?
A) They are obligations from the investor to the corporation.
B) Their interest rate always varies with the Consumer Price Index
C) They have a fixed maturity, and they pay an amount equal to the maturity value times the coupon rate each year.
D) At maturity of the bond, the investor receives the market price of the bond.
Answer: C
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

27) Which of the following is true about Preferred Stock?
A) Preferred shareholders always have voting rights.
B) In most cases, if a company fails to pay a preferred dividend when it is due the preferred shareholders have no right to collect that dividend in the future.
C) Preferred dividends must be paid before the company can pay a dividend on its common stock.
D) Like bonds, preferred stock always has a maturity date at which time the issue price must be repaid to shareholders.
Answer: C
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

28) The market for short-term debt is known as
A) the bond market.
B) the notes market.
C) the capital market.
D) the money market.
Answer: D
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
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29) Characteristics of typical bonds include all of the following EXCEPT
A) the par value.
B) the dividend rate.
C) the coupon rate
D) the maturity date.
Answer: B
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

30) Which of the following financial instruments is not traded in the capital markets?
A) debt with a maturity of less than one year
B) bonds
C) common stock
D) preferred stock
Answer: A
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

31) Which of the following financial instruments entails the most risk and potentially the highest returns for investors?
A) debt with a maturity of less than one year
B) bonds
C) common stock
D) preferred stock
Answer: C
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Revised
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 2: There Is a Risk-Return Tradeoff

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32) Investors in common stock increase their wealth when the
A) the market value of the stock goes up.
B) when the stock pays a dividend.
C) when the stock pays interest on the original investment.
D) both A and B.
Answer: D
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
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33) The 2010 law which prevents banks that take deposits from engaging in proprietary trading is known as
A) Sarbanes-Oxley.
B) The Dodd-Frank (Wall Street Reform and Consumer Protection) Act.
C) The Glass-Steagall Act.
D) The Gramm-Leach-Bliley Act.
Answer: B
Diff: 1
AACSB: 7. Application of knowledge
Question Status: New question
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 5. Individuals respond to incentives.

34) Mortgage Backed securities are bonds whose cash flows are backed by large pools of mortgages.
Answer: TRUE
Diff: 1
AACSB: 7. Application of knowledge
Question Status: New question
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

35) ABC Corporation issued and sold 10 shares of stock to Irene Investor, a private individual. This represents a secondary market transaction.
Answer: FALSE
Diff: 2
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
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36) Colin, a private individual, sold one thousand shares of stock in DEF Corporation to Colleen, also a private individual. This represents a secondary market transaction.
Answer: TRUE
Diff: 2
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

37) The financial crisis of 2008 and was caused in part by declining real estate values and defaults on mortgage payments.
Answer: TRUE
Diff: 1
AACSB: 7. Application of knowledge
Question Status: New question
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

38) A bond matures in less than 10 years.
Answer: FALSE
Diff: 1
AACSB: 3. Analytic thinking skills
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Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

39) Bonds are less risky than are stocks because their return is more predictable.
Answer: TRUE
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

40) Owners of common stock are the owners of the firm.
Answer: TRUE
Diff: 1
AACSB: 3. Analytic thinking skills
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41) Each year, shareholders receive a dividend equal to the firm's net earnings divided by the number of shares of common stock.
Answer: FALSE
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

42) A stock's market value is dependent on investors' expectations of future cash flows to the firm.
Answer: TRUE
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

43) Preferred stock prices are solely dependent on investors' expectations of future cash flows to the corporation.
Answer: FALSE
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

44) A company has the option to pay bond interest or not.
Answer: FALSE
Diff: 1
AACSB: 3. Analytic thinking skills
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45) There are more companies listed on NASDAQ than are listed on the New York Stock Exchange.
Answer: TRUE
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
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46) Organized security exchanges do not physically occupy space.
Answer: FALSE
Diff: 1
AACSB: 3. Analytic thinking skills
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Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

47) Established firms in need of additional capital can raise it in the secondary market.
Answer: FALSE
Diff: 1
AACSB: 3. Analytic thinking skills
Question Status: Previous edition
Objective: 2.3 Describe the different securities markets for bonds and stocks.
Keywords: financial markets
Principles: Principle 4: Market Prices Reflect Information

48) The primary markets sell only stocks and bonds issued by major corporations while the secondary markets sell securities issued by newer and smaller companies.
Answer: FALSE
Diff: 1
AACSB: 3. Analytic thinking skills
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49) Explain how securities markets provide a link between the corporation and investors.
Answer: First, the corporation sells its securities, which can be common stock, preferred stock, or debt. Since the firm receives money directly from these sales, these are primary market transactions. The firm then invests the money it receives, with the corporate purpose of maximizing the value of its shares of common stock. The corporation must then pay back its investors, and pay taxes. Any other monies can be reinvested into the firm. When these securities are traded on the market, these are secondary market transactions, and by making these trades, investors determine the market value of the securities.
Diff: 2
AACSB: 3. Analytic thinking skills
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50) Describe the tax benefits to a corporation of issuing debt rather than issuing stock.
Answer: The greatest advantage to issuing debt is that the interest payments on debt are tax deductible, and that dividend payments are not tax deductible. In addition, the interest payment is a known amount, and the required return on debt is generally lower than the investor required return on equity because the cash flows to investors are more predictable for debt than they are for equity.
Diff: 2
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