Test Bank for Fundamentals of Financial Management Concise Edition 10th Brigham

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TRUE/FALSE

1 : Note that there is an overlap between the T/F and multiple-choice questions, as some of the T/F statements are used in multiple-choice questions. Multiple Choice: True/False A financial intermediary is a corporation that takes funds from investors and then provides those funds to those who need capital. A bank that takes in demand deposits and then uses that money to make long-term mortgage loans is one example of a financial intermediary.
A : true
B : false

Correct Answer : A

2 : The NYSE is defined as a "spot" market purely and simply because it has a physical location. The NASDAQ, on the other hand, is not a spot market because it has no one central location.
A : true
B : false

Correct Answer : B

3 : The NYSE is defined as a "primary" market because it is one of the largest and most important stock markets in the world.
A : true
B : false

Correct Answer : B

4 : Primary markets are large and important, while secondary markets are smaller and less important.
A : true
B : false

Correct Answer : B

5 : Private markets are those like the NYSE, where transactions are handled by members of the organization, while public markets are those like the NASDAQ, where anyone can make transactions.
A : true
B : false

Correct Answer : B

6 : A share of common stock is not a derivative, but an option to buy the stock is a derivative because the value of the option is derived from the value of the stock.
A : true
B : false

Correct Answer : A

7 : Financial institutions are more diversified today than they were in the past, when federal laws kept investment banks, commercial banks, insurance companies, and similar organizations quite separate. Today the larger financial services corporations offer a variety of services,

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ranging from checking accounts, to insurance, to underwriting securities, to stock brokerage.
A : true
B : false

Correct Answer : A

8 : Hedge funds are somewhat similar to mutual funds. The primary differences are that hedge funds are less highly regulated, have more flexibility regarding what they can buy, and restrict their investors to wealthy, sophisticated individuals and institutions.
A : true
B : false

Correct Answer : A

9 : Trades on the NYSE are generally completed by having a brokerage firm acting as a "dealer" buy securities and adding them to its inventory or selling from its inventory. The NASDAQ, on the other hand, operates as an auction market, where buyers offer to buy, and sellers to sell, and the price is negotiated on the floor of the exchange.
A : true
B : false

Correct Answer : B

10 : The "over-the-counter" market received its name years ago because brokerage firms would hold inventories of stocks and then sell them by literally passing them over the counter to the buyer.
A : true
B : false

Correct Answer : A

11 : ?If you decide to buy 100 shares of Google, you would probably do so by calling your broker and asking him or her to execute the trade for you. This would be defined as a secondary market transaction, not a primary market transaction.
A : true
B : false

Correct Answer : A

12 : The term IPO stands for "individual purchase order," as when an individual (as opposed to an institution) places an order to buy a stock.
A : true
B : false

Correct Answer : B

13 : In a "Dutch auction" for new stock, individual investors place bids for shares directly. Each potential bidder indicates the price he or she is willing to pay and how many shares he or she will purchase at that price. The highest price that permits the company to sell all the shares it wants to sell is determined, and this is the "market clearing price." All bidders who specified this price or higher are allowed to purchase their shares at the market clearing price.
A : true
B : false

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Correct Answer : A

14 : When a corporation's shares are owned by a few individuals who are associated with the firm's management, we say that the stock is closely held.
A : true
B : false

Correct Answer : A

15 : A publicly owned corporation is a company whose shares are held by the investing public, which may include other corporations as well as institutional investors.
A : true
B : false

Correct Answer : A

16 : If you wanted to know what rate of return stocks have provided in the past, you could examine data on the Dow Jones Industrial Index, the S&P 500 Index, or the NASDAQ Index.
A : true
B : false

Correct Answer : A

17 : The annual rate of return on any given stock can be found as the stock's dividend for the year plus the change in the stock's price during the year, divided by its beginning-of-year price.
A : true
B : false

Correct Answer : A

18 : The annual rate of return on any given stock can be found as the stock's dividend for the year plus the change in the stock's price during the year, divided by its beginning-of-year price. If you obtain such data on a large portfolio of stocks, like those in the S&P 500, find the rate of return on each stock, and then average those returns, this would give you an idea of stock market returns for the year in question.
A : true
B : false

Correct Answer : A

19 : Each stock's rate of return in a given year consists of a dividend yield (which might be zero) plus a capital gains yield (which could be positive, negative, or zero). Such returns are calculated for all the stocks in the S&P 500. A weighted average of those returns, using each stock's total market value, is then calculated, and that average return is often used as an indicator of the "return on the market."
A : true
B : false

Correct Answer : A

20 : ?Each stock's rate of return in a given year consists of a dividend yield (which might be zero) plus a capital gains yield (which could be positive, negative, or zero). Such returns are

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calculated for all the stocks in the S&P 500. A simple average of those returns (which gives equal weight to each company in the S&P 500) is then calculated. That average is called "the return on the S&P Index," and it is often used as an indicator of the "return on the market."
A : true
B : false

Correct Answer : B

MULTIPLE CHOICE

21 : Multiple Choice: Conceptual You recently sold 100 shares of Microsoft stock to your brother at a family reunion. At the reunion your brother gave you a check for the stock and you gave your brother the stock certificates. Which of the following best describes this transaction?
A : This is an example of a direct transfer of capital.
B : This is an example of a primary market transaction.
C : This is an example of an exchange of physical assets.
D : This is an example of a money market transaction.
E : This is an example of a derivative market transaction.

Correct Answer : A

22 : Which of the following statements is CORRECT?
A : The NYSE does not exist as a physical location. Rather it represents a loose collection of dealers who trade stock electronically.
B : An example of a primary market transaction would be your uncle transferring 100 shares of Walmart stock to you as a birthday gift.
C : Capital market instruments include both long-term debt and common stocks.
D : If your uncle in New York sold 100 shares of Microsoft through his broker to an investor in Los Angeles, this would be a primary market transaction.
E : While the two frequently perform similar functions, investment banks generally specialize in lending money, whereas commercial banks generally help companies raise large blocks of capital from investors.

Correct Answer : C

23 : ?Which of the following is a primary market transaction?
A : ?You sell 200 shares of IBM stock on the NYSE through your broker.
B : ?You buy 200 shares of IBM stock from your brother. The trade is not made through a broker; you just give him cash and he gives you the stock.
C : ?IBM issues 2,000,000 shares of new stock and sells them to the public through an investment banker.
D : ?One financial institution buys 200,000 shares of IBM stock from another institution. An investment banker arranges the transaction.
E : ?IBM sells 2,000,000 shares of treasury stock to its employees when they exercise options that were granted in prior years.

Correct Answer : C

24 : Which of the following is an example of a capital market instrument?
A : Commercial paper.
B : Preferred stock.
C : U.S. Treasury bills.
D : Bankers acceptances.
E : Money market mutual funds.

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Correct Answer : B

25 : Money markets are markets for
A : Foreign currencies.
B : Consumer automobile loans.
C : Common stocks.
D : Long-term bonds.
E : Short-term debt securities such as Treasury bills and commercial paper.

Correct Answer : E

26 : ?Which of the following statements is CORRECT?
A : ?If you purchase 100 shares of Disney stock from your brother-in-law, this is an example of a primary market transaction.
B : ?If Disney issues additional shares of common stock through an investment banker, this would be a secondary market transaction.
C : ?The NYSE is an example of an over-the-counter market.
D : ?Only institutions, and not individuals, can engage in derivative market transactions.
E : ?As they are generally defined, money market transactions involve debt securities with maturities of less than one year.

Correct Answer : E

27 : You recently sold 200 shares of Disney stock, and the transfer was made through a broker. This is an example of:
A : A money market transaction.
B : A primary market transaction.
C : A secondary market transaction.
D : A futures market transaction.
E : An over-the-counter market transaction.

Correct Answer : C

28 : Which of the following statements is CORRECT?
A : Hedge funds are legal in Europe and Asia, but they are not permitted to operate in the United States.
B : Hedge funds are legal in the United States, but they are not permitted to operate in Europe or Asia.
C : Hedge funds have more in common with investment banks than with any other type of financial institution.
D : Hedge funds have more in common with commercial banks than with any other type of financial institution.
E : Hedge funds are not as highly regulated as most other types of financial institutions. The justification for this light regulation is that only "sophisticated" investors (i.e., those with high net worths and high incomes) are permitted to invest in these funds, and these investors supposedly can do any necessary "due diligence" on their own rather than have it done by the SEC or some other regulator.

Correct Answer : E

29 : Which of the following statements is CORRECT?
A : While the distinctions are becoming blurred, investment banks generally specialize in lending money, whereas commercial banks generally help companies raise capital from other parties.
B : The NYSE operates as an auction market, whereas NASDAQ is an example of a dealer market.
C : Money market mutual funds usually invest their money in a well-diversified portfolio of liquid common stocks.
D : Money markets are markets for long-term debt and common stocks.
E : A liquid security is a security whose value is derived from the price of some other "underlying" asset.

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Correct Answer : B

30 : Which of the following statements is CORRECT?
A : The New York Stock Exchange is an auction market, and it has a physical location.
B : Home mortgage loans are traded in the money market.
C : If an investor sells shares of stock through a broker, then it would be a primary market transaction.
D : Capital markets deal only with common stocks and other equity securities.
E : While the distinctions are blurring, investment banks generally specialize in lending money, whereas commercial banks generally help companies raise capital from other parties.

Correct Answer : A

31 : Which of the following statements is CORRECT?
A : The term "IPO" stands for Introductory Price Offered, and it is the price at which shares of a new company are offered to the public.
B : IPO prices are generally established by the market, and buyers of the new stock must pay the price that prevails at the close of trading on the day the stock is offered to the public.
C : In a "Dutch auction," investors who want to buy shares in an IPO submit bids indicating how many shares they want to buy and the price they are willing to pay. The company determines how many shares it wants to sell. The highest price that enables the company to sell the desired number of shares is the price that all buyers must pay.
D : It is possible that the price set in an IPO is so high that investors will refuse to buy the number of shares that the company wants to sell. In this situation, the IPO is said to be oversubscribed.
E : It is possible that the price set in an IPO is so low that investors will want to buy more shares than the company wants to sell. In that case, the company will have to issue more shares than it wants to sell.

Correct Answer : C

32 : Which of the following statements is CORRECT?
A : The most important difference between spot markets versus futures markets is the maturity of the instruments that are traded. Spot market transactions involve securities that have maturities of less than one year whereas futures markets transactions involve securities with maturities greater than one year.
B : Capital market transactions involve only preferred stock or common stock.
C : If General Electric were to issue new stock this year, this would be considered a secondary market transaction since the company already has stock outstanding.
D : Both NASDAQ dealers and "specialists" on the NYSE hold inventories of stocks.
E : Money market transactions do not involve securities denominated in currencies other than the U.S. dollar.

Correct Answer : D

33 : Which of the following statements is NOT CORRECT?
A : When a corporations shares are owned by a few individuals, we say that the firm is "closely, or privately, held."
B : "Going public" establishes a firms true intrinsic value and ensures that a liquid market will always exist for the firms shares.
C : The stock of publicly owned companies must generally be registered with and reported to a regulatory agency such as the SEC.
D : When stock in a closely held corporation is offered to the public for the first time, the transaction is called "going public, or an IPO," and the market for such stock is called the new issue or IPO market.
E : It is possible for a firm to go public and yet not raise any additional new capital for the firm itself.

Correct Answer : B

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