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TEXTBOOK TESTBANKS

Test Bank for Investments 13th Bodie

TEST BANK SAMPLE PREVIEW

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Test Bank

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Chapter 01 Test Bank

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

1) The material wealth of a society is a function of:
   - A) all financial assets.
   - B) all real assets.
   - C) all financial and real assets.
   - D) all physical assets.
   - E) all physical and financial assets.

2) ________ are real assets.
   - A) Land and mortgages
   - B) Machines and bonds
   - C) Stocks and bonds
   - D) Knowledge and stocks
   - E) Land, machines, and knowledge

3) The means by which individuals hold their claims on real assets in a well-developed economy are:
   - A) investment assets.
   - B) depository assets.
   - C) derivative assets.
   - D) financial assets.
   - E) exchange-driven assets.

4) ________ are financial assets.
   - A) Bonds and land
   - B) Machines and derivatives
   - C) Stocks and intellectual property
   - D) Bonds and stocks
   - E) Bonds, machines, and stocks

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5) _________ financial asset(s).

  A) Buildings are
  B) Land is a
  C) Derivatives and intellectual property are
  D) U.S. agency bonds and buildings are
  E) Derivatives and U.S. agency bonds are

6) Financial assets:

  A) directly contribute to the country's productive capacity.
  B) indirectly contribute to the country's productive capacity.
  C) contribute to the country's productive capacity, both directly and indirectly.
  D) do not contribute to the country's productive capacity, either directly or indirectly.
  E) are of no value to anyone.

7) In 2021, ____________ was the most significant real asset of U.S. households in terms of total value.

  A) consumer durables
  B) automobiles
  C) real estate
  D) mutual fund shares
  E) bank loans

8) In 2021, _____________was the least significant financial asset of U.S. households in terms of total value.

  A) real estate
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  D) life insurance reserves
  E) pension reserves

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9) In 2021, _____________ was the most significant financial asset of U.S. households in terms of total value.

   A) real estate
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10) In 2021, ____________ was the most significant asset of U.S. households in terms of total value.

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11) In 2021, ____________ were the most significant liability of U.S. households in terms of total value.

   A) credit cards
   B) mortgages
   C) bank loans
   D) student loans
   E) other forms of debt

12) In 2021, which of the following financial assets make up the greatest proportion of the financial assets held by U.S. households?

   A) Pension reserves
   B) Life insurance reserves
   C) Mutual fund shares
   D) Debt securities
   E) Personal trusts

Test Bank for Investments 13th Bodie

13) In 2021, _______ of the assets of U.S. households were financial assets.
   A) 24.4%
   B) 28.9%
   C) 58.4%
   D) 71.1%
   E) 87.2%

14) The largest component of domestic net worth in 2021 was:
   A) nonresidential real estate.
   B) residential real estate.
   C) inventories.
   D) consumer durables.
   E) equipment and software.

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   A) $9.350 trillion.
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17) A fixed-income security pays:
   A) a fixed level of income for the life of the owner.
   B) a fixed stream of income or a stream of income that is determined according to a specified formula for the life of the security.
   C) a variable level of income for owners on a fixed income.
   D) a fixed or variable income stream at the option of the owner.
   E) None of the choices are correct.

18) A debt security pays:
- A) a fixed level of income for the life of the owner.
- B) a variable level of income for owners on a fixed income.
- C) a fixed or variable income stream at the option of the owner.
- D) a fixed stream of income or a stream of income that is determined according to a specified formula for the life of the security.

19) Money market securities:
- A) are short term.
- B) are highly marketable.
- C) are generally very low risk.
- D) None of the options are correct.
- E) All of the options are correct.

20) An example of a derivative security is:
- A) a common share of Microsoft but not a commodity futures contract.
- B) a call option on Intel stock but not a commodity futures contract.
- C) a commodity futures contract or a common share of Microsoft.
- D) a call option on Intel stock or a commodity futures contract.
- E) a common share of Microsoft or a call option on Intel stock.

21) The value of a derivative security:
- A) depends on the value of the related security.
- B) is unable to be calculated.
- C) is unrelated to the value of the related security.
- D) has been enhanced due to the recent misuse and negative publicity regarding these instruments.
- E) is worthless today.

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22) Although derivatives can be used as speculative instruments, businesses most often use them to:

A) attract customers.
B) appease stockholders.
C) offset debt.
D) hedge risks.
E) enhance their balance sheets.

23) Financial assets permit all of the following except:

A) consumption timing.
B) allocation of risk.
C) separation of ownership and control.
D) elimination of risk.
E) All of the choices are correct.

24) The ____________ refers to the potential conflict between management and shareholders.

A) agency problem
B) diversification problem
C) liquidity problem
D) solvency problem
E) regulatory problem

25) A disadvantage of using stock options to compensate managers is that:

A) it encourages managers to undertake projects that will increase stock price.
B) it encourages managers to engage in empire building.
C) it can create an incentive for managers to manipulate information to prop up a stock price temporarily, giving them a chance to cash out before the price returns to a level reflective of the firm's true prospects.
D) All of the choices are correct.
E) None of the choices are correct.

Test Bank for Investments 13th Bodie

26) Which of the following are mechanisms that have evolved to mitigate potential agency problems?

1. Using the firm's stock options for compensation
2. Hiring bickering family members as corporate spies
3. Boards of directors forcing out underperforming management
4. Security analysts monitoring the firm closely
5. Takeover threats

A) II and V
B) I, III, and IV
C) I, III, IV, and V
D) III, IV, and V
E) I, III, and V

27) Corporate shareholders are best protected from incompetent management decisions by:

A) the ability to engage in proxy fights.
B) management's control of pecuniary rewards.
C) the ability to call shareholder meetings.
D) the threat of takeover by other firms.
E) one-share per one-vote election rules.

28) Theoretically, takeovers should result in:

A) improved management and decreased stock price.
B) increased stock price and increased benefits to existing management of the taken-over firm.
C) increased benefits to existing management of the taken-over firm.
D) improved management and increased stock price.
E) All of the options are correct.

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29) During the period between 2000 and 2002, a large number of scandals were uncovered. Most of these scandals were related to:

1. manipulation of financial data to misrepresent the actual condition of the firm.
2. misleading and overly optimistic research reports produced by analysts.
3. allocating IPOs to executives as a quid pro quo for personal favors.
4. greenmail.

   A) II, III, and IV
   B) I, II, and IV
   C) II and IV
   D) I, III, and IV
   E) I, II, and III

30) The Sarbanes-Oxley Act:

   A) requires corporations to have more independent directors.
   B) requires the firm's CFO to personally vouch for the firm's accounting statements.
   C) prohibits auditing firms from providing other services to clients.
   D) requires corporations to have more independent directors and requires the firm's CFO to personally vouch for the firm's accounting statements.
   E) All of the choices are correct.

31) Asset allocation refers to:

   A) choosing which securities to hold based on their valuation.
   B) investing only in "safe" securities.
   C) the allocation of assets into broad asset classes.
   D) bottom-up analysis.
   E) All of the choices are correct.

32) Security selection refers to:

   A) choosing which securities to hold based on their valuation.
   B) investing only in "safe" securities.
   C) the allocation of assets into broad asset classes.
   D) top-down analysis.
   E) All of the choices are correct.

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33) Which of the following portfolio construction methods starts with security analysis?

A) Top-down
B) Bottom-up
C) Middle-out
D) Buy and hold
E) None of the choices are correct.

34) Which of the following portfolio construction methods starts with asset allocation?

A) Top-down
B) Bottom-up
C) Middle-out
D) Buy and hold
E) Asset allocation

35) ________ are examples of financial intermediaries.

A) Commercial banks
B) Insurance companies
C) Investment companies
D) Credit unions
E) All of the options are correct.

36) Financial intermediaries exist because small investors cannot efficiently:

A) diversify their portfolios.
B) assess credit risk of borrowers.
C) advertise for needed investments.
D) diversify their portfolios and assess credit risk of borrowers.
E) All of the options are correct.

37) _________ specialize in helping companies raise capital by selling securities.

A) Commercial bankers
B) Investment bankers
C) Investment issuers
D) Credit rating agencies
E) All of the choices are correct.

Test Bank for Investments 13th Bodie

Chapter 01 Test Bank

38) Commercial banks differ from other businesses in that both their assets and their liabilities are mostly:

A) illiquid.
B) financial.
C) real.
D) owned by the government.
E) regulated.

39) In 2021, ____________ was(were) the most significant financial asset(s) of U.S. commercial banks in terms of total value.

A) loans and leases
B) cash
C) real estate
D) deposits
E) investment securities

40) In 2021, ____________ was(were) the most significant liability(ies) of U.S. commercial banks in terms of total value.

A) loans and leases
B) cash
C) real estate
D) deposits
E) investment securities

41) In 2021, ____________ was(were) the most significant real asset(s) of U.S. nonfinancial businesses in terms of total value.

A) equipment and software
B) inventory
C) real estate
D) trade credit
E) marketable securities

Test Bank for Investments 13th Bodie

42) In 2021, ____________ was(were) the least significant real asset(s) of U.S. nonfinancial businesses in terms of total value.

A) equipment and software
B) inventory
C) real estate
D) trade credit
E) marketable securities

43) In 2021, ____________ was(were) the least significant liability(ies) of U.S. nonfinancial businesses in terms of total value.

A) bonds
B) bank loans and mortgages
C) inventories
D) trade debt
E) marketable securities

44) In terms of total value, the most significant liability(ies) of U.S. nonfinancial businesses in 2021 was(were):

A) bank loans and mortgages.
B) debt securities.
C) trade debt.
D) other loans.
E) marketable securities.

45) In 2021, ____________ was(were) the least significant financial asset(s) of U.S. nonfinancial businesses in terms of total value.

A) cash and deposits
B) trade credit
C) trade debt
D) inventory
E) marketable securities

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46) New issues of securities are sold in the ________ market(s).

A) primary
B) secondary
C) over-the-counter
D) primary and secondary
E) All of the choices are correct.

47) Investors trade previously issued securities in the ________ market(s).

A) primary
B) secondary
C) primary and secondary
D) derivatives
E) derivatives and primary

48) Investment bankers perform which of the following role(s)?

A) Market new stock and bond issues for firms
B) Provide advice to the firms as to market conditions, price, etc.
C) Design securities with desirable properties
D) All of the options are correct.
E) None of the options are correct.

49) Until 1999, the ________ Act(s) prohibited banks in the United States from both accepting deposits and underwriting securities.

A) Sarbanes-Oxley
B) Glass-Steagall
C) SEC
D) Sarbanes-Oxley and SEC
E) None of the options are correct.

50) The spread between the LIBOR and the Treasury-bill rate is called the:

A) term spread.
B) T-bill spread.
C) LIBOR spread.
D) TED spread.
E) All of the choices are correct.

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51) Mortgage-backed securities were created when ________ began buying mortgage loans from originators and bundling them into large pools that could be traded like any other financial asset.

A) GNMA
B) FNMA
C) FHLMC
D) FNMA and FHLMC
E) GNMA and FNMA

52) The sale of a mortgage portfolio by setting up mortgage pass-through securities is an example of:

A) credit enhancement.
B) credit swap.
C) unbundling.
D) derivatives.
E) All of the choices are correct.

53) Which of the following is true about mortgage-backed securities?

1. They aggregate individual home mortgages into homogeneous pools.
2. The purchaser receives monthly interest and principal payments received from payments made on the pool.
3. The banks that originated the mortgages maintain ownership of them.
4. The banks that originated the mortgages may continue to service them.

A) II, III, and IV
B) I, II, and IV
C) II and IV
D) I, III, and IV
E) I, II, III, and IV

54) ________ were designed to concentrate the credit risk of a bundle of loans on one class of investor, leaving the other investors in the pool relatively protected from that risk.

A) Stocks
B) Bonds
C) Derivatives
D) Collateralized debt obligations
E) All of the options are correct.

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55) ________ are, in essence, an insurance contract against the default of one or more borrowers.

A) Credit default swaps
B) CMOs
C) ETFs
D) Collateralized debt obligations
E) All of the options are correct.

56) The technology behind cryptocurrencies that is ideal for secure digital transactions is called ______________.

A) bitcoin
B) blockchain
C) distributed ledgers
D) ethereum
E) All of the options are correct.

57) A major problem experienced by cryptocurrency, which makes it problematic to store value is ______________.

A) distributed ledgers
B) blockchain
C) price volatility
D) transaction security
E) All of the options are correct.

58) Which country(ies) has banned initial coin offerings?

A) China and South Korea
B) Germany and Austria
C) Japan
D) USA
E) All of the options are correct.

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59) The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 exempted smaller banks from which rule?

A) Liquidity
B) Reserves
C) Demand deposit
D) Volcker
E) All of the options are correct.

60) According to the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 many larger banks are no longer considered _____________.

A) insurable
B) high risk
C) insolvent
D) systematically important
E) All of the options are correct.

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Answer Key

Test name: Chapter 01 Test Bank

1) B
2) E
3) D
4) D
5) E
6) B
7) C
8) D
9) E
10) A
11) B
12) A
13) D
14) B
15) C
16) D
17) B
18) D
19) E
20) D
21) A
22) D
23) D
24) A
25) C
26) C
27) D
28) D
29) E
30) E
31) C
32) A
33) B
34) A
35) E
36) E
37) B

38) B
39) A
40) D
41) C
42) B
43) B
44) B
45) A
46) A
47) B
48) D
49) B
50) D
51) D
52) B
53) B
54) D
55) A
56) B
57) C
58) A
59) D
60) D

Chapter 01 Test Bank - Static

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

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D) top-down analysis.
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C) Middle-out
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D) inventory
E) marketable securities

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46) New issues of securities are sold in the ________ market(s).

A) primary
B) secondary
C) over-the-counter
D) primary and secondary
E) All of the choices are correct.

47) Investors trade previously issued securities in the ________ market(s).

A) primary
B) secondary
C) primary and secondary
D) derivatives
E) derivatives and primary

48) Investment bankers perform which of the following role(s)?

A) Market new stock and bond issues for firms
B) Provide advice to the firms as to market conditions, price, etc.
C) Design securities with desirable properties
D) All of the options are correct.
E) None of the options are correct.

49) Until 1999, the ________ Act(s) prohibited banks in the United States from both accepting deposits and underwriting securities.

A) Sarbanes-Oxley
B) Glass-Steagall
C) SEC
D) Sarbanes-Oxley and SEC
E) None of the options are correct.

50) The spread between the LIBOR and the Treasury-bill rate is called the:

A) term spread.
B) T-bill spread.
C) LIBOR spread.
D) TED spread.
E) All of the choices are correct.

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51) Mortgage-backed securities were created when ________ began buying mortgage loans from originators and bundling them into large pools that could be traded like any other financial asset.

A) GNMA
B) FNMA
C) FHLMC
D) FNMA and FHLMC
E) GNMA and FNMA

52) The sale of a mortgage portfolio by setting up mortgage pass-through securities is an example of:

A) credit enhancement.
B) credit swap.
C) unbundling.
D) derivatives.
E) All of the choices are correct.

53) Which of the following is true about mortgage-backed securities?

1. They aggregate individual home mortgages into homogeneous pools.
2. The purchaser receives monthly interest and principal payments received from payments made on the pool.
3. The banks that originated the mortgages maintain ownership of them.
4. The banks that originated the mortgages may continue to service them.

A) II, III, and IV
B) I, II, and IV
C) II and IV
D) I, III, and IV
E) I, II, III, and IV

54) ________ were designed to concentrate the credit risk of a bundle of loans on one class of investor, leaving the other investors in the pool relatively protected from that risk.

A) Stocks
B) Bonds
C) Derivatives
D) Collateralized debt obligations
E) All of the options are correct.

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55) ________ are, in essence, an insurance contract against the default of one or more borrowers.

A) Credit default swaps
B) CMOs
C) ETFs
D) Collateralized debt obligations
E) All of the options are correct.

56) The technology behind cryptocurrencies that is ideal for secure digital transactions is called ______________.

A) bitcoin
B) blockchain
C) distributed ledgers
D) ethereum
E) All of the options are correct.

57) A major problem experienced by cryptocurrency, which makes it problematic to store value is ______________.

A) distributed ledgers
B) blockchain
C) price volatility
D) transaction security
E) All of the options are correct.

58) Which country(ies) has banned initial coin offerings?

A) China and South Korea
B) Germany and Austria
C) Japan
D) USA
E) All of the options are correct.

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Chapter 01 Test Bank - Static

59) The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 exempted smaller banks from which rule?

A) Liquidity
B) Reserves
C) Demand deposit
D) Volcker
E) All of the options are correct.

60) According to the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 many larger banks are no longer considered _____________.

A) insurable
B) high risk
C) insolvent
D) systematically important
E) All of the options are correct.

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Chapter 01 Test Bank - Static

Answer Key

Test name: Chapter 01 Test Bank - Static

1) B
2) E
3) D
4) D
5) E
6) B
7) C
8) D
9) E
10) A
11) B
12) A
13) D
14) B
15) C
16) D
17) B
18) D
19) E
20) D
21) A
22) D
23) D
24) A
25) C
26) C
27) D
28) D
29) E
30) E
31) C
32) A
33) B
34) A
35) E
36) E
37) B

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38) B
39) A
40) D
41) C
42) B
43) B
44) B
45) A
46) A
47) B
48) D
49) B
50) D
51) D
52) B
53) B
54) D
55) A
56) B
57) C
58) A
59) D
60) D

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