Chapter 02 Test Bank - Static

Student: ____

1. Only small companies can go through financial markets to obtain financing.

   True False

2. The reinvestment of cash back into the firm's operations is an example of a flow of savings to investment.

   True False

3. Smaller businesses are especially dependent upon internally generated funds.

   True False

4. An individual can save and invest in a corporation by lending money to it or by purchasing additional shares.

   True False

5. Previously issued securities are traded among investors in the secondary markets.

   True False

6. Only the IPOs for large corporations are sold in primary markets.

   True False

7. Hedge fund managers, unlike mutual fund managers, do not receive fund-performance-related fees.

   True False

8. The markets for long-term debt and equity are called capital markets.

   True False

9. The stocks of major corporations trade in many markets throughout the world on a continuous or near-continuous basis.

   True False

10. The market for derivatives is also a source of financing for corporations.

    True False

11. During the Financial Crisis of 2007-2009, the U.S. government bailed out all firms in danger of failing.

    True False

12. In the United States, banks are the most important source of long-term financing for corporations.

    True False

13. A financial intermediary invests in financial assets rather than real assets.

True False

14. Households hold directly three quarters of U.S. corporate equities.

True False

15. The key to the banks' ability to make illiquid loans is their ability to pool liquid deposits from thousands of depositors.

True False

16. From June 2001 to June 2006, house prices in the United States rose sharply.

True False

17. For corporate bonds, the higher the credit quality of an issuer, the higher the interest rate.

True False

18. The cost of capital is the interest rate paid on a loan from a bank or some other financial institution.

True False

19. Like public companies, private companies can also use their stock price as a measure of performance.

True False

20. The opportunity cost of capital is the expected rate of return that shareholders can obtain in the financial markets on investments with the same risk as the firm's capital investments.

True False

21. Once Apple Computer had become a public company, it was able to raise financing from venture capital companies

True False

22. Insurance companies provide a mechanism for individuals to pool their risks.

True False

23. Financial markets and intermediaries allow investors and businesses to reduce and reallocate risk.

True False

24. The effects of the financial crisis of 2007-2009 were confined to the U.S. and domestic companies.

True False

25. The cost of capital is the minimum acceptable rate of return for capital investment.

True False

26. One root of the financial crisis of 2007-2009 was the strict money policies promoted by the U.S. Federal Reserve and other central banks after the technology bubble burst (i.e., money was relatively expensive during this time).

True False

27. The rates of return on investments outside the corporation set the minimum return for investment projects inside the corporation.

True False

28. Financing for public corporations must flow through financial markets.

True False

29. Financing for private companies must flow through financial intermediaries such as mutual funds.

True False

30. Almost all foreign exchange trading occurs on the floors of the FOREX exchanges in New York and London.

True False

31. Corporate financing comes ultimately from:

A. savings by households and foreign investors.
B. cash generated from the firm's operations.
C. the financial markets and intermediaries.
D. the issue of shares in the firm.

32. A company can pay for its expansion in all the following ways *except*:

A. by using the earnings generated from its sale of obsolete equipment.
B. by persuading a director's mother to make a personal loan to the company.
C. by purchasing bonds in the secondary market.
D. by plowing back part of its profits.

33. "Reinvestment" means:

A. new investment in new operations.
B. additional investment in existing operations.
C. new investment by new shareholders.
D. the reinvestment of earnings into new projects.

34. Financing for public corporations flows through:

A. the financial markets only.
B. financial intermediaries only.
C. derivatives markets.
D. the financial markets, financial intermediaries, or both.

35. When corporations need to raise funds through stock issues, they rely on the:

A. primary market.
B. secondary market.
C. tertiary market.
D. centralized NASDAQ exchange.

36. A primary market would be utilized when:

A. investors buy or sell existing securities.
B. shares of common stock are exchanged.
C. securities are initially issued.
D. a commission must be paid on the transaction.

37. The primary distinction between securities sold in the primary and secondary markets is:

A. the riskiness of the securities.
B. the price of the securities.
C. whether the securities are new or already exist.
D. the profitability of the issuing corporation.

38. Which of the following are both a financial intermediary and a financial institution?

A. Mutual funds
B. Pension funds
C. Insurance companies
D. Hedge funds

39. A share of IBM stock is purchased by an individual investor for $75 and later sold to another investor for $125. Who profits from this sale?

A. IBM
B. The first investor
C. The second investor
D. IBM and both investors

40. Which of the following financial assets is *least* likely to have an active secondary market?

A. Common stock of a large public firm
B. Bank loans made to smaller firms
C. Bonds of a major, multinational corporation
D. Debt issued by the U.S. Treasury

41. When Patricia sells her General Motors common stock at the same time that Brian purchases the same amount of GM stock, GM receives:

A. the dollar value of the transaction.
B. the dollar amount of the transaction, less brokerage fees.
C. only the par value of the common stock.
D. nothing.

42. Which one of these is a money market security?

A. Commercial paper
B. Common stock
C. 2-year bond
D. 20-year bond

43. A mother in a developing country wants to borrow the equivalent of $20 to enable her to start a small restaurant run by her family. Which type of financing is she looking to obtain?

A. Public bond issue
B. IPO
C. Micro loan
D. Futures contract on a commodity

44. Corporate debt instruments are most commonly traded:

A. on the NYSE.
B. on NASDAQ.
C. in the money market.
D. in the over-the-counter market.

45. A bond differs from a share of stock in that a bond:

A. represents a claim on the firm.
B. has more risk.
C. has guaranteed returns.
D. has a maturity date.

46. Short-term financing transactions commonly occur in the:

A. primary markets.
B. secondary markets.
C. capital markets.
D. money markets.

47. Long-term financing decisions commonly occur in the:

A. option markets.
B. secondary markets.
C. capital markets.
D. money markets.

48. You can buy silver in the:

A. capital markets.
B. foreign exchange markets.
C. commodities markets.
D. option markets.

49. Commodity and derivative markets:

A. are additional sources of financing for corporate projects.
B. enable the financial manager to adjust a firm's exposure to various business risks.
C. are always over-the-counter markets.
D. deal only in foreign currencies.

50. Foreign currencies are traded:

A. only by banks in New York and London.
B. over the counter.
C. on both the NYSE and NASDAQ.
D. on the Intercontinental Exchange.

51. Which one of the following statements is *not* characteristic of mutual funds?

A. They are always considered to be financial institutions.
B. They raise money by selling shares to investors.
C. They pool the savings of many investors.
D. They offer professional management and portfolio diversification.

52. Which one of these correctly applies to mutual funds?

A. Mutual funds are a costly means of achieving portfolio diversification.
B. Funds are required to limit their annual fees and expenses to less than 1 percent of the portfolio value.
C. You can generally buy additional shares in the fund at any time.
D. Shareholders sell their shares to other shareholders.

53. "Balanced" mutual funds:

A. invest in both stocks and bonds.
B. spread their investments equally over a specified geographic area.
C. spread their investments equally over various industries.
D. charge a management fee that is proportionate to the investment return.

54. Who was responsible for the financial crisis of 2007-2009?

A. The U.S. Federal Reserve, for its policy of easy money
B. The U.S. government, for pushing banks to expand credit for low-income housing
C. Bankers, who aggressively promoted and resold subprime mortgages
D. The U.S. Federal Reserve, the U.S. government, rating agencies, and bankers

55. Which one of the following funds provides a tax advantage to individual investors?

A. Balanced funds
B. Pension funds
C. Bond funds
D. Funds that invest in foreign countries

56. A financial institution:

A. is a kind of financial intermediary.
B. simply pools and invests savings.
C. raises financing by selling shares.
D. invests primarily in commodities.

57. Which type of financial institution generally does not accept deposits but does underwrite stock offerings?

A. Insurance company
B. Mutual fund
C. Commercial bank
D. Investment bank

58. Which one of the following financial intermediaries has shown the greatest preference for investing in *long-term* financial assets?

A. Commercial banks
B. Insurance companies
C. Finance companies
D. Savings banks

59. Which one of these may provide a financial return to some investors while not providing any financial return to other investors?

A. Mutual funds
B. Pension funds
C. Insurance companies
D. Hedge fund

60. Insurance companies can usually cover the claims of policyholders because:

A. the incidence of claims normally averages out across all policyholders.
B. they issue a very limited number of policies.
C. they are fully insured by the U.S. government.
D. their stockholders will cover any cash shortfalls encountered by the company.

61. Which of the following is *not* typically considered a function of financial intermediaries?

A. Providing a payment mechanism
B. Investing in real assets
C. Accumulating funds from smaller investors
D. Spreading, or pooling risk among individuals

62. U.S. bonds and other debt securities are mostly held by:

A. institutional investors.
B. households.
C. foreign investors.
D. state and local governments.

63. Approximately what percentage of U.S. corporate equities are held by households?

A. 20%
B. 40%
C. 60%
D. 80%

64. Which of the following are major holders of corporate bonds?

A. households.
B. banks.
C. insurance companies.
D. New York Stock Exchange.

65. Which of the following is not a function of financial markets?

A. allow individuals to diversify their risk.
B. provide convenient ways to make large payments.
C. allow individuals to purchase a range of goods online.
D. provide funds to companies that wish to expand.

66. Which one of these transports income forward in time?

A. Retirement savings
B. Car loan
C. Bank line of credit
D. Credit card purchase

67. Which one of these assists in shifting an individual's consumption forward in time?

A. A bank line of credit
B. A bank savings account
C. A life insurance policy
D. A retirement savings plan

68. One reason suggesting that banks may be better than individuals at matching lenders to borrowers is that banks:

A. can shift loan risk to their deposit customers.
B. are motivated by the potential for profit.
C. do not have any income tax liability.
D. have information to evaluate creditworthiness.

69. Which one of the following is *least* liquid?

A. Foreign currency
B. U.S. Treasury bonds
C. Real estate
D. Bank deposit

70. Financial markets and intermediaries:

A. channel savings to real investment.
B. increase risks for businesses.
C. generally reduce the liquidity of securities.
D. prevent the transportation of cash across time.

71. Which of the following functions does *not* require financial markets?

A. Retention of cash by corporations
B. Provision of liquidity
C. Risk reduction by investment in diversified portfolios
D. Provision of pricing information

72. Liquidity is important to a mutual fund primarily because:

A. a fund that is less liquid will attract more investors.
B. the fund's shareholders may want to redeem their shares at any time.
C. new investors may invest in the fund at any time.
D. the fund requires cash to pay its taxes.

73. Which one of the following is the biggest provider of payment mechanisms?

A. Hedge funds
B. Banks
C. Mutual funds
D. Insurance companies

74. Which of the following actions does *not* help reduce risk?

A. Extending the service warranty for your notebook
B. Converting your money market account to a mutual fund account
C. Contracting to sell your farm produce to the neighborhood grocery
D. Buying Japanese yen now when you plan to study in Japan next year

75. Insurance companies primarily reduce an individual's risk by:

A. transporting that risk forward in time.
B. providing payment services.
C. spreading that risk across many individuals.
D. providing low-interest-rate loans.

76. Which of the following information is *not* provided by the financial markets?

A. The price of six ounces of gold
B. The cost of borrowing $500,000 for 5 years
C. Microsoft's earnings in 2013
D. The cost of one million yen in U.S. dollars

77. A capital investment that generates a 10% rate of return is worthwhile if:

A. corporate bonds of similar risk offer 8% rates of return.
B. corporate bonds of similar risk offer 11% rates of return.
C. top-quality corporate bonds offer 10% rates of return.
D. the expected rate of return on the stock market is 12%.

78. The cost of capital:

A. is the expected rate of return on a capital investment.
B. is an opportunity cost determined by the risk-free rate of return.
C. is the interest rate that the firm pays on a loan from a bank or insurance company.
D. for risky investments is normally higher than the firm's borrowing rate.

79. Excess cash held by a firm should be:

A. reinvested by the firm in projects offering the highest rate of return.
B. reinvested by the firm in projects offering rates of return higher than the cost of capital.
C. reinvested by the firm in the financial markets.
D. distributed to bondholders in the form of extra coupon payments.

80. One contributing factor to the 2007-2009 financial crisis was the structuring of mortgage loans with:

A. high initial payments, offset by significantly lower payments later.
B. low initial payments, offset by significantly higher payments later.
C. high initial payments, offset by high payments later.
D. very short maturities.

81. The opportunity cost of capital:

A. is the interest rate that the firm pays on a loan from a financial institution.
B. is the maximum acceptable rate of return on a project.
C. is the minimum acceptable rate of return on a project.
D. is always less than 10%.

82. During the Financial Crisis of 2007-2009, the U.S. government bailed out all of the following firms *except:*

A. AIG.
B. Fannie Mae.
C. Lehman Brothers.
D. Freddie Mac.

83. If Apple Computer Inc. is used as the model, then new firms should expect to raise capital in which one of these orders? Start with the first money raised.

A. Owners, venture capitalists, suppliers, public investors
B. Owners, suppliers, venture capitalists, public investors
C. Venture capitalists, owners, public investors, suppliers
D. Owners, public investors, venture capitalists, suppliers

84. Which one of these parties *cannot* invest in a hedge fund?

A. Small retail investors
B. Pension funds
C. Insurance companies
D. Wealthy individuals

85. Which one of these enterprises generally acts as an underwriter for an initial public offering?

A. Commercial bank
B. Government
C. Investment bank
D. Insurance company

86. Which of these institutions are not major investors in U.S. equities?

A. mutual funds
B. banks
C. pension funds
D. hedge funds

87. Firms can often determine the price of any commodities they use in their production process by consulting the price quotes provided by:

A. their investment bank.
B. the New York Mercantile Exchange.
C. the New York Stock Exchange.
D. the Standard & Poor's market indexes.

88. How is the relationship between a bond's credit rating and its interest rate best defined?

A. Inverse relationship
B. Direct relationship
C. Unrelated
D. Logarithmic

89. The financial crisis of 2007-2009 contributed to the largest sovereign default in history by which one of these countries?

A. Italy
B. Portugal
C. Ireland
D. Greece

90. Which one of these was a contributing factor to the need for many foreign banks to seek aid from their governments as a result of the financial crisis of 2007-2009?

A. Decrease in their exchange rates
B. Investments in U.S. subprime mortgages
C. Interest rate spikes
D. Currency controls

91. Which one of these was a major cause of the deep recession and severe unemployment throughout much of Europe that followed the financial crisis of 2007-2009?

A. Government actions to raise interest rates
B. Investor speculation
C. Risk-adverse investor attitudes
D. Government actions to lower government debt

92. Which one of these is generally a key difference between U.S. and foreign commercial banks?

A. Pooling and investing savings
B. Accepting investor deposits
C. Providing debt financing to corporations
D. Making equity investments in corporations

Chapter 02 Test Bank - Static Key

1. Only small companies can go through financial markets to obtain financing.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

2. The reinvestment of cash back into the firm's operations is an example of a flow of savings to investment.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.
Topic: Financial institution functions

3. Smaller businesses are especially dependent upon internally generated funds.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.
Topic: Financial institution functions

4. An individual can save and invest in a corporation by lending money to it or by purchasing additional shares.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.
Topic: Financial institution functions

5. Previously issued securities are traded among investors in the secondary markets.

TRUE

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Primary and secondary markets

6. Only the IPOs for large corporations are sold in primary markets.

FALSE

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Initial public offerings

7. Hedge fund managers, unlike mutual fund managers, do not receive fund-performance-related fees.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Types of financial institutions

8. The markets for long-term debt and equity are called capital markets.

TRUE

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Capital markets

9. The stocks of major corporations trade in many markets throughout the world on a continuous or near-continuous basis.

TRUE

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Stock trading

10. The market for derivatives is also a source of financing for corporations.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Derivatives and other securities

11. During the Financial Crisis of 2007-2009, the U.S. government bailed out all firms in danger of failing.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: Financial distress

12. In the United States, banks are the most important source of long-term financing for corporations.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Financial institution functions

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TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Financial institutions

14. Households hold directly three quarters of U.S. corporate equities.

FALSE

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Raising capital

15. The key to the banks' ability to make illiquid loans is their ability to pool liquid deposits from thousands of depositors.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

16. From June 2001 to June 2006, house prices in the United States rose sharply.

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AACSB: Reflective Thinking
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Blooms: Understand
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17. For corporate bonds, the higher the credit quality of an issuer, the higher the interest rate.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Bond ratings and credit risk

18. The cost of capital is the interest rate paid on a loan from a bank or some other financial institution.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Cost of capital-general

19. Like public companies, private companies can also use their stock price as a measure of performance.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Stock market prices and reporting

20. The opportunity cost of capital is the expected rate of return that shareholders can obtain in the financial markets on investments with the same risk as the firm's capital investments.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Expected (required) return

21. Once Apple Computer had become a public company, it was able to raise financing from venture capital companies

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.
Topic: Raising capital

22. Insurance companies provide a mechanism for individuals to pool their risks.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

23. Financial markets and intermediaries allow investors and businesses to reduce and reallocate risk.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

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AACSB: Reflective Thinking
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Blooms: Understand
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AACSB: Reflective Thinking
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Blooms: Understand
Difficulty: 2 Medium
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26. One root of the financial crisis of 2007-2009 was the strict money policies promoted by the U.S. Federal Reserve and other central banks after the technology bubble burst (i.e., money was relatively expensive during this time).

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AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
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TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Expected (required) return

28. Financing for public corporations must flow through financial markets.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

29. Financing for private companies must flow through financial intermediaries such as mutual funds.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

30. Almost all foreign exchange trading occurs on the floors of the FOREX exchanges in New York and London.

FALSE

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Foreign exchange markets

31. Corporate financing comes ultimately from:

A. savings by households and foreign investors.
B. cash generated from the firm's operations.
C. the financial markets and intermediaries.
D. the issue of shares in the firm.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.
Topic: Financial institution functions

32. A company can pay for its expansion in all the following ways *except*:

A. by using the earnings generated from its sale of obsolete equipment.
B. by persuading a director's mother to make a personal loan to the company.
C. by purchasing bonds in the secondary market.
D. by plowing back part of its profits.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.
Topic: Raising capital

33. "Reinvestment" means:

A. new investment in new operations.
B. additional investment in existing operations.
C. new investment by new shareholders.
D. the reinvestment of earnings into new projects.

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.
Topic: Raising capital

34. Financing for public corporations flows through:

A. the financial markets only.
B. financial intermediaries only.
C. derivatives markets.
D. the financial markets, financial intermediaries, or both.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

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A. primary market.
B. secondary market.
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AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
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Topic: Primary and secondary markets

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A. investors buy or sell existing securities.
B. shares of common stock are exchanged.
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AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
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A. the riskiness of the securities.
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AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
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Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Primary and secondary markets

38. Which of the following are both a financial intermediary and a financial institution?

A. Mutual funds
B. Pension funds
C. Insurance companies
D. Hedge funds

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.

Topic: Financial institutions

39. A share of IBM stock is purchased by an individual investor for $75 and later sold to another investor for $125. Who profits from this sale?

A. IBM
B. The first investor
C. The second investor
D. IBM and both investors

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Stock returns and yields

40. Which of the following financial assets is *least* likely to have an active secondary market?

A. Common stock of a large public firm
B. Bank loans made to smaller firms
C. Bonds of a major, multinational corporation
D. Debt issued by the U.S. Treasury

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Primary and secondary markets

41. When Patricia sells her General Motors common stock at the same time that Brian purchases the same amount of GM stock, GM receives:

A. the dollar value of the transaction.
B. the dollar amount of the transaction, less brokerage fees.
C. only the par value of the common stock.
D. nothing.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Primary and secondary markets

42. Which one of these is a money market security?

A. Commercial paper
B. Common stock
C. 2-year bond
D. 20-year bond

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Money and capital markets

43. A mother in a developing country wants to borrow the equivalent of $20 to enable her to start a small restaurant run by her family. Which type of financing is she looking to obtain?

A. Public bond issue
B. IPO
C. Micro loan
D. Futures contract on a commodity

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Debt

44. Corporate debt instruments are most commonly traded:

A. on the NYSE.
B. on NASDAQ.
C. in the money market.
D. in the over-the-counter market.

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Primary and secondary markets

45. A bond differs from a share of stock in that a bond:

A. represents a claim on the firm.
B. has more risk.
C. has guaranteed returns.
D. has a maturity date.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Bond features

46. Short-term financing transactions commonly occur in the:

A. primary markets.
B. secondary markets.
C. capital markets.
D. money markets.

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Money and capital markets

47. Long-term financing decisions commonly occur in the:

A. option markets.
B. secondary markets.
C. capital markets.
D. money markets.

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Money and capital markets

48. You can buy silver in the:

A. capital markets.
B. foreign exchange markets.
C. commodities markets.
D. option markets.

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Money and capital markets

49. Commodity and derivative markets:

A. are additional sources of financing for corporate projects.
B. enable the financial manager to adjust a firm's exposure to various business risks.
C. are always over-the-counter markets.
D. deal only in foreign currencies.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Derivatives and other securities

50. Foreign currencies are traded:

A. only by banks in New York and London.
B. over the counter.
C. on both the NYSE and NASDAQ.
D. on the Intercontinental Exchange.

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Foreign exchange markets

51. Which one of the following statements is *not* characteristic of mutual funds?

A. They are always considered to be financial institutions.
B. They raise money by selling shares to investors.
C. They pool the savings of many investors.
D. They offer professional management and portfolio diversification.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Types of financial institutions

52. Which one of these correctly applies to mutual funds?

A. Mutual funds are a costly means of achieving portfolio diversification.
B. Funds are required to limit their annual fees and expenses to less than 1 percent of the portfolio value.
C. You can generally buy additional shares in the fund at any time.
D. Shareholders sell their shares to other shareholders.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Types of financial institutions

53. "Balanced" mutual funds:

A. invest in both stocks and bonds.
B. spread their investments equally over a specified geographic area.
C. spread their investments equally over various industries.
D. charge a management fee that is proportionate to the investment return.

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.

Topic: Types of financial institutions

54. Who was responsible for the financial crisis of 2007-2009?

A. The U.S. Federal Reserve, for its policy of easy money
B. The U.S. government, for pushing banks to expand credit for low-income housing
C. Bankers, who aggressively promoted and resold subprime mortgages
D. The U.S. Federal Reserve, the U.S. government, rating agencies, and bankers

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: Financial distress

55. Which one of the following funds provides a tax advantage to individual investors?

A. Balanced funds
B. Pension funds
C. Bond funds
D. Funds that invest in foreign countries

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Types of financial institutions

56. A financial institution:

A. is a kind of financial intermediary.
B. simply pools and invests savings.
C. raises financing by selling shares.
D. invests primarily in commodities.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institutions

57. Which type of financial institution generally does not accept deposits but does underwrite stock offerings?

A. Insurance company
B. Mutual fund
C. Commercial bank
D. Investment bank

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic

Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Types of financial institutions

58. Which one of the following financial intermediaries has shown the greatest preference for investing in *long-term* financial assets?

A. Commercial banks
B. Insurance companies
C. Finance companies
D. Savings banks

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Financial institution functions

59. Which one of these may provide a financial return to some investors while not providing any financial return to other investors?

A. Mutual funds
B. Pension funds
C. Insurance companies
D. Hedge fund

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Types of financial institutions

60. Insurance companies can usually cover the claims of policyholders because:

A. the incidence of claims normally averages out across all policyholders.
B. they issue a very limited number of policies.
C. they are fully insured by the U.S. government.
D. their stockholders will cover any cash shortfalls encountered by the company.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Types of financial institutions

61. Which of the following is *not* typically considered a function of financial intermediaries?

A. Providing a payment mechanism
B. Investing in real assets
C. Accumulating funds from smaller investors
D. Spreading, or pooling risk among individuals

AACSB: Communication

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Financial institution functions

62. U.S. bonds and other debt securities are mostly held by:

A. institutional investors.
B. households.
C. foreign investors.
D. state and local governments.

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Raising capital

63. Approximately what percentage of U.S. corporate equities are held by households?

A. 20%
B. 40%
C. 60%
D. 80%

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Raising capital

64. Which of the following are major holders of corporate bonds?

A. households.
B. banks.
C. insurance companies.
D. New York Stock Exchange.

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Raising capital

65. Which of the following is not a function of financial markets?

A. allow individuals to diversify their risk.
B. provide convenient ways to make large payments.
C. allow individuals to purchase a range of goods online.
D. provide funds to companies that wish to expand.

AACSB: Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

66. Which one of these transports income forward in time?

A. Retirement savings
B. Car loan
C. Bank line of credit
D. Credit card purchase

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

67. Which one of these assists in shifting an individual's consumption forward in time?

A. A bank line of credit
B. A bank savings account
C. A life insurance policy
D. A retirement savings plan

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

68. One reason suggesting that banks may be better than individuals at matching lenders to borrowers is that banks:

A. can shift loan risk to their deposit customers.
B. are motivated by the potential for profit.
C. do not have any income tax liability.
D. have information to evaluate creditworthiness.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

69. Which one of the following is *least* liquid?

A. Foreign currency
B. U.S. Treasury bonds
C. Real estate
D. Bank deposit

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

70. Financial markets and intermediaries:

A. channel savings to real investment.
B. increase risks for businesses.
C. generally reduce the liquidity of securities.
D. prevent the transportation of cash across time.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

71. Which of the following functions does *not* require financial markets?

A. Retention of cash by corporations
B. Provision of liquidity
C. Risk reduction by investment in diversified portfolios
D. Provision of pricing information

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

72. Liquidity is important to a mutual fund primarily because:

A. a fund that is less liquid will attract more investors.
B. the fund's shareholders may want to redeem their shares at any time.
C. new investors may invest in the fund at any time.
D. the fund requires cash to pay its taxes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.

Topic: Financial institution functions

73. Which one of the following is the biggest provider of payment mechanisms?

A. Hedge funds
B. Banks
C. Mutual funds
D. Insurance companies

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

74. Which of the following actions does *not* help reduce risk?

A. Extending the service warranty for your notebook
B. Converting your money market account to a mutual fund account
C. Contracting to sell your farm produce to the neighborhood grocery
D. Buying Japanese yen now when you plan to study in Japan next year

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

75. Insurance companies primarily reduce an individual's risk by:

A. transporting that risk forward in time.
B. providing payment services.
C. spreading that risk across many individuals.
D. providing low-interest-rate loans.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Financial institution functions

76. Which of the following information is *not* provided by the financial markets?

A. The price of six ounces of gold
B. The cost of borrowing $500,000 for 5 years
C. Microsoft's earnings in 2013
D. The cost of one million yen in U.S. dollars

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic

Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

77. A capital investment that generates a 10% rate of return is worthwhile if:

A. corporate bonds of similar risk offer 8% rates of return.
B. corporate bonds of similar risk offer 11% rates of return.
C. top-quality corporate bonds offer 10% rates of return.
D. the expected rate of return on the stock market is 12%.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Expected (required) return

78. The cost of capital:

A. is the expected rate of return on a capital investment.
B. is an opportunity cost determined by the risk-free rate of return.
C. is the interest rate that the firm pays on a loan from a bank or insurance company.
D. for risky investments is normally higher than the firm's borrowing rate.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Cost of capital-general

79. Excess cash held by a firm should be:

A. reinvested by the firm in projects offering the highest rate of return.
B. reinvested by the firm in projects offering rates of return higher than the cost of capital.
C. reinvested by the firm in the financial markets.
D. distributed to bondholders in the form of extra coupon payments.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.
Topic: Goal of financial management

80. One contributing factor to the 2007-2009 financial crisis was the structuring of mortgage loans with:

A. high initial payments, offset by significantly lower payments later.
B. low initial payments, offset by significantly higher payments later.
C. high initial payments, offset by high payments later.
D. very short maturities.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Gradable: automatic
Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: Financial distress

81. The opportunity cost of capital:

A. is the interest rate that the firm pays on a loan from a financial institution.
B. is the maximum acceptable rate of return on a project.
C. is the minimum acceptable rate of return on a project.
D. is always less than 10%.

AACSB: Communication
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Expected (required) return

82. During the Financial Crisis of 2007-2009, the U.S. government bailed out all of the following firms *except:*

A. AIG.
B. Fannie Mae.
C. Lehman Brothers.
D. Freddie Mac.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: Financial distress

83. If Apple Computer Inc. is used as the model, then new firms should expect to raise capital in which one of these orders? Start with the first money raised.

A. Owners, venture capitalists, suppliers, public investors
B. Owners, suppliers, venture capitalists, public investors
C. Venture capitalists, owners, public investors, suppliers
D. Owners, public investors, venture capitalists, suppliers

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-02 Understand the basic structure of banks, insurance companies, mutual funds, and pension funds.
Topic: Raising capital

84. Which one of these parties *cannot* invest in a hedge fund?

A. Small retail investors
B. Pension funds
C. Insurance companies
D. Wealthy individuals

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

Blooms: Understand
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.
Topic: Hedging

85. Which one of these enterprises generally acts as an underwriter for an initial public offering?

A. Commercial bank
B. Government
C. Investment bank
D. Insurance company

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Underwriting

86. Which of these institutions are not major investors in U.S. equities?

A. mutual funds
B. banks
C. pension funds
D. hedge funds

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-01 Understand how financial markets and institutions channel savings to corporate investment.
Topic: Raising capital

87. Firms can often determine the price of any commodities they use in their production process by consulting the price quotes provided by:

A. their investment bank.
B. the New York Mercantile Exchange.
C. the New York Stock Exchange.
D. the Standard & Poor's market indexes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

88. How is the relationship between a bond's credit rating and its interest rate best defined?

A. Inverse relationship
B. Direct relationship
C. Unrelated
D. Logarithmic

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Bond ratings and credit risk

89. The financial crisis of 2007-2009 contributed to the largest sovereign default in history by which one of these countries?

A. Italy
B. Portugal
C. Ireland
D. Greece

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: Financial distress

90. Which one of these was a contributing factor to the need for many foreign banks to seek aid from their governments as a result of the financial crisis of 2007-2009?

A. Decrease in their exchange rates
B. Investments in U.S. subprime mortgages
C. Interest rate spikes
D. Currency controls

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: Financial distress

91. Which one of these was a major cause of the deep recession and severe unemployment throughout much of Europe that followed the financial crisis of 2007-2009?

A. Government actions to raise interest rates
B. Investor speculation
C. Risk-adverse investor attitudes
D. Government actions to lower government debt

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Gradable: automatic
Learning Objective: 02-04 Understand the main events behind the financial crisis of 2007-2009 and the subsequent eurozone crisis.
Topic: Financial distress

92. Which one of these is generally a key difference between U.S. and foreign commercial banks?

A. Pooling and investing savings
B. Accepting investor deposits
C. Providing debt financing to corporations
D. Making equity investments in corporations

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Gradable: automatic
Learning Objective: 02-03 Explain the functions of financial markets and institutions.
Topic: Financial institution functions

Chapter 02 Test Bank - Static Summary

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