**Chapter 1**

**The Financial Environment**

**TRUE-FALSE QUESTIONS**

1. Finance is the study of how individuals, institutions, and businesses acquire, spend and manage money and other financial resources.

Answer: T

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

2. Financial management is the study of financial planning, asset management and fund raising by businesses and financial institutions.

Answer: T

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

3. Personal finance is the study of how growth-driven performance-focused, early-stage firms raise financial capital and manage operations and assets.

Answer: F

Difficulty Level: Easy

Subject Heading: Two Themes

L.O. 1.1

4. Personal finance is the study of how individuals prepare for financial emergencies, protect against premature death and property losses, and accumulate wealth.

Answer: T

Difficulty Level: Easy

Subject Heading: Two Themes

L.O. 1.1

5. Financial markets provide the mechanism for allocating financial resources or funds from savers to borrowers.

Answer: T

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

6. The financial environment is organizations or intermediaries that help the financial system operate efficiently and transfer funds from savers and investors to individuals, businesses, and governments that seek to spend or invest the funds in physical assets (inventories, buildings, and equipment).

Answer: F

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

7. The primary goal of the financial manager in a profit-seeking organization is to maximize the owners’ wealth.

Answer: T

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

8. Financial environment is the country or countries being studied.

Answer: F

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

9. The terms financial system, institutions, and intermediaries are all interchangeable.

Answer: T

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

10. Most of the impetus for growth in the U.S. economy comes from large companies.

Answer: F

Difficulty Level: Easy

Subject Heading: Small Business Practice

L.O. 1.2

11. While the financial press chooses to highlight examples of unethical behavior, most individuals exhibit sound ethical behavior in their personal and business dealings and practices.

Answer: T

Difficulty Level: Easy

Subject Heading: Reputation Matters

L.O. 1.3

12. The six principles of finance include (1) Money has a time value, (2) Higher returns are expected for taking on more risk, (3) Diversification of investments can reduce risk, (4) Financial markets are efficient in pricing securities, (5) Manager and stockholder objectives may differ, and (6) Reputation matters.

Answer: T

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

13. The principle of finance that "money has a time value" implies Money in hand today is worth less than the promise of receiving the same amount in the future because a sum of money today could be invested and grow over time.

Answer: F

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

14. Receiving one dollar today has the same value as receiving one dollar in one year.

Answer: F

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

15. The principle of finance that "lower returns are expected for taking on less risk" implies that rational investors would choose a risky investment only if they feel the expected return is high enough to justify the greater risk.

Answer: T

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

16. The riskier the investment, the lower the return.

Answer: F

Difficulty Level: Easy

Subject Heading: Six Principles of Finance

L.O. 1.3

17. The principle of finance that "financial markets are efficient in pricing securities" implies that the prices of securities reflect some information available to the public and that when new information becomes available, prices change over time to reflect that information.

Answer: F

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

18. All investment risk is not the same.

Answer: T

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

19. Some risk can be removed by investing in several different assets or securities.

Answer: T

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

20. The principle of finance that "management objectives may differ from owner objectives" implies that owner returns may suffer as a result of manager objectives.

Answer: T

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

21. Markets have informational efficiency.

Answer: T

Difficulty Level: Easy

Subject Heading: Six Principles of Finance

L.O. 1.3

22. The principle of finance that "management objectives may differ from owner objectives" can be resolved by increasing manager salaries.

Answer: F

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

23. The principle of finance that "reputation matters" implies that for institutions or businesses to be successful, they must have the trust and confidence of their customers, employees, and owners, as well as the community and society within which they operate.

Answer: T

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

24. The principle of finance that "reputation matters" sometimes is harmed by the different objectives of owners and managers.

Answer: T

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

25. The U.S. Treasury Department is primarily responsible for the amount of money that is created in the U.S. economy.

Answer: F

Difficulty Level: Easy

Subject Heading: Overview of the Financial System

L.O. 1.4

26. In the United States, the central bank is the Federal Reserve System.

Answer: T

Difficulty Level: Easy

Subject Heading: Overview of the Financial System

L.O. 1.4

27. Financial system functions include accumulating savings and lending funds.

Answer: T

Difficulty Level: Easy

Subject Heading: Overview of the Financial System

L.O. 1.4

28. Three financial system components are the U.S. Treasury, financial institutions, and financial markets.

Answer: F

Difficulty Level: Easy

Subject Heading: Overview of the Financial System

L.O. 1.4

29. Individuals and businesses hold money for purchases or payments they expect to make in the near future.

Answer: T

Difficulty Level: Easy

Subject Heading: Transferring Money

L.O. 1.4

30. One of the most significant functions of the financial system is the creation of money, which serves as a medium of exchange.

Answer: T

Difficulty Level: Medium

Subject Heading: Financial System

L.O. 1.4

31. An effective financial system is a complex mix of government and policy makers, a monetary system, financial institutions, and financial markets that interact to expedite the flow of financial capital from savings into investment.

Answer: T

Difficulty Level: Medium

Subject Heading: Financial System

L.O. 1.4

32. The role of the monetary system is to print and circulate currency.

Answer: F

Difficulty Level: Medium

Subject Heading: Figure 1.2

L.O. 1.4

33. The role of financial markets is to market and facilitate the transfer of financial assets.

Answer: T

Difficulty Level: Medium

Subject Heading: Figure 1.2

L.O. 1.4

34. The secondary securities markets are involved in creating and issuing new securities, mortgages, and other claims to wealth.

Answer: F

Difficulty Level: Easy

Subject Heading: Financial Markets: Characteristics and Types

L.O. 1.5

35. Money markets are the markets where generally short-term assets are traded.

Answer: T

Difficulty Level: Easy

Subject Heading: Financial Markets: Characteristics and Types

L.O. 1.5

36. Capital markets are markets where equity securities and debt securities with maturities of greater than one year are traded.

Answer: T

Difficulty Level: Easy

Subject Heading: Financial Markets: Characteristics and Types

L.O. 1.5

37. Money markets are markets where equity securities and debt securities with maturities of greater than one year are traded.

Answer: F

Difficulty Level: Easy

Subject Heading: Financial Markets: Characteristics and Types

L.O. 1.5

38. Because the relative values of currencies may change, firms cannot use the currency exchange markets to reduce the risk of holding too much of certain currencies.

Answer: F

Difficulty Level: Easy

Subject Heading: Major Types of Financial Markets

L.O. 1.5

39. Money markets are where debt securities with maturities of one year or more are issued and traded.

Answer: F

Difficulty Level: Medium

Subject Heading: Money and Capital Markets

L.O. 1.5

40. Derivative securities may be used to speculate on the future price direction of the underlying financial assets or to reduce price risk associated with holding the underlying financial assets.

Answer: T

Difficulty Level: Medium

Subject Heading: Financial Markets: Characteristics and Types

L.O. 1.5

41. The bond markets are where money market securities, bonds, and mortgages are originated and traded.

Answer: F

Difficulty Level: Hard

Subject Heading: Major Types of Financial Markets

L.O. 1.5

42. Larger businesses or corporations divide their finance activities into treasury and monitoring functions, whereas smaller firms often combine these functions.

Answer: F

Difficulty Level: Hard

Subject Heading: Careers in Finance

L.O. 1.6

**MULTIPLE-CHOICE QUESTIONS**

43. Finance has its origins in:

a. economics and statistics

b. accounting and sociology

c. accounting and economics

d. psychology and mathematics

Answer: c

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

44. An area of finance that involves the sale or marketing of securities, the analysis of securities, and the management of investment risk through portfolio diversification is referred to as

a. financial management

b. investments

c. financial institutions

d. Financial Markets: Characteristics and Types

Answer: b

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

45. Intermediaries that help the financial system operate efficiently and transfer funds from savers and investors to individuals, businesses, and governments that seek to spend or invest the funds are known as:

a. banks

b. financial institutions

c. securities markets

d. government organizations

Answer: b

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

46. Finance is:

a. the study of how individuals, institutions, governments, and businesses acquire, spend, and manage money and other financial assets

b. the study of how businesses acquire, spend, and manage money and other financial assets

c. the study of how governments, and businesses acquire, spend, and manage money and other financial assets

d. the study of how money is used to purchase goods and services

Answer: a

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

47. The financial environment:

a. encompasses the financial markets and global interactions that contribute to an efficiently operating economy.

b. encompasses the financial institutions and financial markets that contribute to an efficiently operating economy.

c. encompasses the financial system, financial institutions, financial markets, business firms, individuals, and global interactions that contribute to an efficiently operating economy.

d. encompasses the trade in goods and services by financial instruments.

Answer: c

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

48. Economists use a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ framework to explain how the prices and quantities of goods and services are determined in a free-market economic system.

a. opportunity

b. marginal cost

c. supply-and-demand

d. anti-monopoly

Answer: C

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

49. An area of finance that involves the study of organizations or intermediaries that help the financial system operate efficiently and transfer funds from savers and investors to individuals, businesses, and governments that seek to spend or invest the funds in physical assets (inventories, buildings, and equipment) is called:

a. financial management

b. investments

c. financial institutions

d. banks

Answer: c

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

50. Successful businesses typically progress through a series of life-cycle stages—from the idea stage to exiting the business; these five stages include the:

a. development stage, startup stage, survival stage, rapid growth stage, and maturity stage.

b. idea stage, design stage, operating stage, rebuilding stage, and decline stage

c. development stage, operating stage, rebuilding stage, rapid growth stage, and maturity stage

d. idea stage, startup stage, rapid growth stage, survival stage, and decline stage

Answer: a

Difficulty Level: Medium

Subject Heading: Business Life Cycle

L.O. 1.1

51. This is the financial system, institutions, markets, businesses, individuals, and global interactions that help the economy operate efficiency.

a. Financial management

b. Investments

c. Financial markets

d. Financial institutions

e. Financial environment

Answer: e

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

52. This is the intermediaries that help the financial system operate efficiently and transfer funds from savers to individuals, businesses, and governments that seek to spend or invest the funds,

a. Financial management

b. Investments

c. Financial markets

d. Financial institutions

e. Financial environment

Answer: d

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

53. An effective financial system must have:

a. several sets of policy makers who pass laws and make decisions relating to fiscal and monetary policies

b. an efficient system for buying goods and services

c. gold reserves equal to the amount of money in circulation

d. free trade in financial instruments with foreign nations

Answer: a

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

54. This is the locations or electronic forums that facilitate the flow of funds among investors, businesses, and governments.

a. Financial management

b. Investments

c. Financial markets

d. Financial institutions

e. Financial environment

Answer: c

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

55. This involves the sale or marketing of securities, the analysis of securities, and the management of investment risk through portfolio diversification.

a. Financial management

b. Investments

c. Financial markets

d. Financial institutions

e. Financial environment

Answer: b

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

56. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ provide the record-keeping mechanism for showing ownership of the financial instruments used in the flow of financial funds between savers and borrowers and record revenues, expenses, and profitability of organizations that produce and exchange goods and services.

a. Financial Managers

b. Accountants

c. Operations Managers

d. Statisticians

Answer: b

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

57. This involves financial planning, asset management, and fund-raising decisions to enhance the value of businesses.

a. Financial management

b. Investments

c. Financial markets

d. Financial institutions

e. Financial environment

Answer: a

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

58. An area of finance that involves financial planning, asset management and fund-raising decisions to enhance the value of businesses is called:

a. financial management

b. investments

c. financial institutions

d. Financial Markets: Characteristics and Types

Answer: a

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

59. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are intermediaries, such as banks, insurance companies, and investment companies that engage in financial activities to aid the flow of funds from savers to borrowers or investors.

a. Financial Institutions

b. Financial market organizations

c. Federal agencies

d. International financial organizations

Answer: a

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

60. Which of the following is not a part of the financial environment?

a. Institutions and markets

b. Investments

c. Stocks

d. Financial management

Answer: c

Difficulty Level: Medium

Subject Heading: Figure 1.1

L.O. 1.1

61. This is the study of how growth driven, performance focused, early stage firms raise financial capital and manage operations and assets.

a. Corporate finance

b. Business finance

c. Entrepreneurial finance

d. Personal finance

e. None of the above

Answer: c

Difficulty Level: Medium

Subject Heading: Two Themes

L.O. 1.1

62. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are crucial elements of the financial environment and well-developed financial systems.

a. Businesses and the federal government

b. International organizations such as the World Bank and International Monetary Fund

c. Well-developed barter systems

d. Financial institutions, financial markets, and investment and financial management

Answer: d

Difficulty Level: Hard

Subject Heading: What is Finance?

L.O. 1.1

63. Crucial elements of well-developed financial systems include all of the following except:

a. government control of the economy

b. financial intermediaries

c. Financial Markets: Characteristics and Types

d. an efficient monetary system

Answer: a

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

64. This is the study of how individuals prepare for financial emergencies, protect against premature death and property losses, and accumulate wealth.

a. Corporate finance

b. Business finance

c. Entrepreneurial finance

d. Personal finance

e. None of the above

Answer: d

Difficulty Level: Medium

Subject Heading: Two Themes

L.O. 1.1

65. Which of the following is a crucial element of the financial environment and a well-developed financial system?

a. financial institutions

b. markets for goods and services

c. storage facilities for gold and silver

d. trade with foreign nations

Answer: a

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

66. An area of finance that refers to the physical locations or electronic forums that facilitate the flow of funds among investors, businesses, and governments is called:

a. financial management

b. investments

c. financial institutions

d. financial markets

Answer: d

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

67. The primary goal of the financial manager of a profit-seeking organization is to:

a. maximize market share

b. maximize the owners’ wealth

c. increase sales and profit

d. have healthy cash flow

Answer: b

Difficulty Level: Easy

Subject Heading: What is Finance?

L.O. 1.1

68. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ involves making decisions relating to issuing and investing in stocks and bonds.

a. Financial economics

b. Financial management

c. Investment management

d. Asset allocation

Answer: c

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

69. Financial markets encourage investment by:

a. providing capital at lower rates than provided by banks

b. providing electronic execution of transactions which are faster and cheaper than other methods

c. providing the means for savers to easily and quickly convert financial assets into cash when needed

d. encouraging people not to buy goods and services

Answer: c

Difficulty Level: Medium

Subject Heading: What is Finance?

L.O. 1.1

70. Reasons we study finance include all of the following except:

a. To make informed economic decisions

b. To make informed personal and business investment decisions

c. To make informed career decisions based on a basic understanding of business finance

d. To make informed medical decisions

Answer: d

Difficulty Level: Easy

Subject Heading: Basic Concepts

L.O. 1.2

71. The value of money results from

a. its backing

b. rates set by the Federal Reserve

c. its purchasing power

d. its backing by gold

Answer: c

Difficulty Level: Easy

Subject Heading: Basic Concepts

L.O. 1.3

72. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ behavior refers to how an individual or organization treats others legally, fairly, and honestly.

a. Principal-agent

b. Stakeholder

c. Responsible

d. Ethical

e. none of the above

Answer: d

Difficulty Level: Medium

Subject Heading: Reputation Matters

L.O. 1.3

73. If the interest rate is greater than 0%, then a dollar today is worth

a. more than a dollar tomorrow

b. the same as a dollar tomorrow

c. less than a dollar tomorrow

d. there is not sufficient information to tell

Answer: a

Difficulty Level: Easy

Subject Heading: Time Value of Money

L.O. 1.3

74. If the interest rate is equal to 0%, then a dollar today is worth

a. more than a dollar tomorrow

b. the same as a dollar tomorrow

c. less than a dollar tomorrow

d. there is not sufficient information to tell

Answer: b

Difficulty Level: Easy

Subject Heading: Time Value of Money

L.O. 1.3

75. The six principles of finance include all of the following except:

a. Money has a time value.

b. Higher returns are expected for taking on more risk

c. Diversification of investments can reduce risk

d. Larger capital amounts are charged higher interest

Answer: d

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

76. Among the six principles of finance, all are included except:

a. All decisions are ultimately financial decisions.

b. Higher returns are expected for taking on more risk

c. Diversification of investments can reduce risk

d. Financial markets are efficient in pricing securities

Answer: a

Difficulty Level: Medium

Subject Heading: Six Principles of Finance

L.O. 1.3

77. $1,000 invested today at 6% interest would be worth \_\_\_\_\_\_\_\_ one year from now

a. $1,600

b. $1,060

c. $1,160

d. $1,006

Answer: b

[$1,000 x .06 = $60, and $1,000 + $60 = $1,060]

Difficulty Level: Medium

Subject Heading: Time Value of Money

L.O. 1.3

78. Two risky assets can be combined to lower the overall risk of a portfolio. This principle is commonly referred to as

a. blending

b. asset allocation

c. diversification

d. portfolio segmentation

Answer: c

Difficulty Level: Medium

Subject Heading: Diversification of Risk

L.O. 1.3

79. Rational investors would consider an investment in a risky business venture only if they feel the expected return is high enough to justify the

a. greater risk.

b. higher cost.

c. longer useful life.

d. more complex designs.

Answer: a

Difficulty Level: Medium

Subject Heading: Risk and Return

L.O. 1.3

80. The theory of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ implies that information is quickly embedded in prices making it difficult for investors to "beat the market."

a. stock investing

b. efficient markets

c. portfolio management

d. asset allocation

Answer: b

Difficulty Level: Medium

Subject Heading: Risk Versus Return

L.O. 1.3

81. Which statement best describes the six principles of finance?

a. Money has a time value; Higher returns are expected for taking on more risk; Diversification of investments does not impact risk; Financial markets are efficient in pricing securities; Manager and stockholder objectives may differ; Reputation matters.

b. Money has a time value; Higher returns are expected for taking on more risk; Diversification of investments can reduce risk; Financial markets are efficient in pricing securities; Manager and stockholder objectives may differ; Reputation matters.

c. Money has a time value; Higher returns are expected for taking on more risk; Diversification of investments can reduce risk; Financial markets are inefficient in pricing securities; Manager and stockholder objectives may differ; Reputation matters.

d. Money has a time value; Higher returns are expected for taking on more risk; Diversification of investments can reduce risk; Financial markets are efficient in pricing securities; Manager and stockholder objectives may differ; Reputation doesn’t matter.

Answer: b

Difficulty Level: Hard

Subject Heading: Six Principles of Finance

L.O. 1.3

82. The possible conflict between managers and owners is sometimes called the

a. principal-subordinate problem

b. principal-agent problem

c. boss-subordinate problem

d. boss-agent problem

Answer: b

Difficulty Level: Medium

Subject Heading: Management Versus Owner Objectives

L.O. 1.3

83. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a term used to describe the financial system, institutions, markets, businesses, individuals, and global interactions that help the economy operate efficiently

a. financial environment

b. regulatory environment

c. international environment

d. operating environment

Answer: a

Difficulty Level: Medium

Subject Heading: Financial System

L.O. 1.4

84. An effective financial system needs which of the following:

a. an efficient monetary system

b. to be able to trade with other nations

c. markets in which to buy and sell goods and services

d. physical locations for markets

Answer: a

Difficulty Level: Medium

Subject Heading: Overview of the Financial System

L.O. 1.4

85. Financial functions in the U.S. financial system include all of these except:

a. transferring financial assets

b. creating money

c. accumulating savings

d. barter of goods and services

Answer: d

Difficulty Level: Medium

Subject Heading: Financial System Components and Financial Functions

L.O. 1.4

86. A basic requirement for an effective financial system is a monetary system that performs which of the following financial functions?

a. formation and transferring of money

b. storing gold and silver to back up money

c. creating jobs

d. transferring real assets

Answer: a

Difficulty Level: Medium

Subject Heading: Financial System

L.O. 1.4

87. In the United States, most money is created by:

a. depository institutions

b. the United States Treasury

c. capital markets

d. None of the above

Answer: a

Difficulty Level: Medium

Subject Heading: Creating Money

L.O. 1.4

88. Checks:

a. are orders to depository institutions to transfer money to the party who received the check

b. may be safely sent in the mail

c. provide a record of payment

d. all of the above

Answer: d

Difficulty Level: Medium

Subject Heading: Transferring Money

L.O. 1.4

89. A basic requirement of an effective financial system includes:

a. storing money

b. transferring money

c. designing money

d. all of the above

Answer: b

Difficulty Level: Medium

Subject Heading: Characteristics and Requirements

L.O. 1.4

90. The basic requirements for an effective financial system in a developed economy include:

a. a store of gold reserves

b. markets for the sale of goods and services

c. markets for the transfer of financial assets

d. a freely elected government to oversee markets

Answer: c

Difficulty Level: Medium

Subject Heading: Figure 1.2

L.O. 1.4

91. The saving-investment process involves which of the following financial functions:

a. creating and transferring money

b. accumulating savings and lending and investing money

c. marketing and transferring financial assets

d. selling non-financial assets

Answer: b

Difficulty Level: Medium

Subject Heading: Financial System Components and Financial Functions

L.O. 1.4

92. An economy’s \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the interaction of policy makers, a monetary system, financial institutions, and financial markets to expedite the flow of financial capital from savings into investment:

a. banking system

b. stock market

c. capital market

d. financial system

Answer: d

Difficulty Level: Medium

Subject Heading: Overview of the Financial System

L.O. 1.4

93. An efficient \_\_\_\_\_\_\_\_\_\_\_\_\_\_ that is comprised of a central bank and a banking system that is able to create and transfer a stable medium of exchange called money.

a. allocation system

b. banking system

c. monetary system

d. market system

Answer: c

Difficulty Level: Medium

Subject Heading: Characteristics and Requirements

L.O. 1.4

94. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is primarily responsible for the amount of money that is created, although most of the money is actually created by depository institutions.

a. Securities Exchange Commission

b. Federal Treasury

c. Federal Reserve System

d. Financial Asset Oversight Board

Answer: b

Difficulty Level: Medium

Subject Heading: Creating Money

L.O. 1.4

95. Functions of the monetary system include which of the following:

a. creating money

b. designing money

c. storing money

d. exchanging money for goods and services

Answer: a

Difficulty Level: Medium

Subject Heading: Creating Money

L.O. 1.4

96. The primary securities markets are

a. the markets for previously issued securities such as the New York Stock Exchange

b. the markets where financial assets such as stocks and bonds are initially issued

c. the three most important financial markets in any economy

d. the markets for stocks and bonds only

Answer: b

Difficulty Level: Medium

Subject Heading: Marketing Financial Assets

L.O. 1.4

97. Which of the following financial institutions market “seasoned” instruments and securities?

a. brokerage firms

b. finance companies

c. mortgage lenders

d. commercial banks

Answer: a

Difficulty Level: Medium

Subject Heading: Marketing Financial Assets

L.O. 1.4

98. Brokerage firms do not perform which of the following functions?

a. handle shares of ownership

b. create money

c. market existing securities

d. transfer shares of ownership

Answer: b

Difficulty Level: Medium

Subject Heading: Marketing Financial Assets

L.O. 1.4

99. Passing laws and setting fiscal and monetary policies is the role of who?

a. Policy makers

b. Monetary system

c. Financial institutions

d. Financial markets

e. None of the above

Answer: a

Difficulty Level: Easy

Subject Heading: Figure 1.2

L.O. 1.4

100. Creating and transferring money is the role of who?

a. Policy makers

b. Monetary system

c. Financial institutions

d. Financial markets

e. None of the above

Answer: b

Difficulty Level: Easy

Subject Heading: Figure 1.2

L.O. 1.4

101. Accumulating and leading and investing savings is the role of who?

a. Policy makers

b. Monetary system

c. Financial institutions

d. Financial markets

e. None of the above

Answer: c

Difficulty Level: Easy

Subject Heading: Figure 1.2

L.O. 1.4

102. Marketing and facilitating the transfer of financial assets is the role of who?

a. Policy makers

b. Monetary system

c. Financial institutions

d. Financial markets

e. None of the above

Answer: d

Difficulty Level: Easy

Subject Heading: Figure 1.2

L.O. 1.4

103. The issuing of new securities, mortgages, and other claims to wealth takes place in the:

a. secondary market

b. money market

c. primary market

d. securities market

Answer: c

Difficulty Level: Easy

Subject Heading: Primary and Secondary Markets

L.O. 1.5

104. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ facilitate the transfer of financial assets among individuals, institutions, businesses, and governments.

a. Secondary Markets

b. Government institutions

c. Regulatory authorities

d. Individual investors

Answer: a

Difficulty Level: Easy

Subject Heading: Primary and Secondary Markets

L.O. 1.5

105. \_\_\_\_\_\_\_\_\_\_ are where debt securities of one year or less are issued or traded.

a. Money markets

b. Capital markets

c. Primary markets

d. Secondary markets

Answer: a

Difficulty Level: Easy

Subject Heading: Financial Markets: Characteristics and Types

L.O. 1.5

106. \_\_\_\_\_\_\_\_\_\_ are where debt securities with maturities longer than one year and corporate stocks are issued or traded.

a. Money markets

b. Capital markets

c. Primary markets

d. Secondary markets

Answer: b

Difficulty Level: Easy

Subject Heading: Financial Markets: Characteristics and Types

L.O. 1.5

107. \_\_\_\_\_\_\_\_\_\_ are where the initial offering or origination of debt and equity securities takes place.

a. Money markets

b. Capital markets

c. Primary markets

d. Secondary markets

Answer: c

Difficulty Level: Easy

Subject Heading: Financial Markets: Characteristics and Types

L.O. 1.5

108. \_\_\_\_\_\_\_\_\_\_ are where the transfer of existing debt and equity securities between investors occurs.

a. Money markets

b. Capital markets

c. Primary markets

d. Secondary markets

Answer: d

Difficulty Level: Easy

Subject Heading: Financial Markets: Characteristics and Types

L.O. 1.5

109. \_\_\_\_\_\_\_\_\_\_ are obligations to repay borrowed funds.

a. Debt securities

b. Equity securities

c. Checking accounts

d. Bank notes

Answer: a

Difficulty Level: Easy

Subject Heading: Major Types of Financial Markets

L.O. 1.5

110. \_\_\_\_\_\_\_\_\_\_ are ownership shares in corporations.

a. Debt securities

b. Equity securities

c. Checking accounts

d. Bank notes

Answer: b

Difficulty Level: Easy

Subject Heading: Major Types of Financial Markets

L.O. 1.5

111. \_\_\_\_\_\_\_\_\_\_ are where money market securities, bonds, and mortgages are originated and traded.

a. Debt securities markets

b. Bond markets

c. Mortgage markets

d. Equity Securities markets

e. Derivative securities markets

Answer: a

Difficulty Level: Easy

Subject Heading: Major Types of Financial Markets

L.O. 1.5

112. \_\_\_\_\_\_\_\_\_\_ are where debt securities with longer-term maturities are originated and traded.

a. Debt securities markets

b. Bond markets

c. Mortgage markets

d. Equity Securities markets

e. Derivative securities markets

Answer: b

Difficulty Level: Easy

Subject Heading: Major Types of Financial Markets

L.O. 1.5

113. \_\_\_\_\_\_\_\_\_\_ are where loans to purchase real estate are originated and traded.

a. Debt securities markets

b. Bond markets

c. Mortgage markets

d. Equity Securities markets

e. Derivative securities markets

Answer: c

Difficulty Level: Easy

Subject Heading: Major Types of Financial Markets

L.O. 1.5

114. \_\_\_\_\_\_\_\_\_\_ are where corporate ownership shares are initially sold and traded.

a. Debt securities markets

b. Bond markets

c. Mortgage markets

d. Equity Securities markets

e. Derivative securities markets

Answer: d

Difficulty Level: Easy

Subject Heading: Major Types of Financial Markets

L.O. 1.5

115. \_\_\_\_\_\_\_\_\_\_ are where financial contracts that derive their values from underlying debt and equity securities are originated and traded.

a. Debt securities markets

b. Bond markets

c. Mortgage markets

d. Equity Securities markets

e. Derivative securities markets

Answer: e

Difficulty Level: Easy

Subject Heading: Major Types of Financial Markets

L.O. 1.5

116. \_\_\_\_\_\_\_\_\_\_ are electronic markets in which banks and institutional traders buy and sell various currencies on behalf of businesses and other clients.

a. Debt securities markets

b. Bond markets

c. Foreign exchange markets

d. Equity Securities markets

e. Derivative securities markets

Answer: c

Difficulty Level: Easy

Subject Heading: Major Types of Financial Markets

L.O. 1.5

117. Involves monitoring and managing the firm’s day-to-day cash inflows and outflows.

a. Cash management analyst

b. Capital expenditures analyst

c. Credit analyst

d. Cost analyst

e. Tax analyst

Answer: a

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

118. Involves estimating cash flows and evaluating asset investment opportunities.

a. Cash management analyst

b. Capital expenditures analyst

c. Credit analyst

d. Cost analyst

e. Tax analyst

Answer: b

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

119. Involves evaluating credit applications and collecting amounts owed by credit customers.

a. Cash management analyst

b. Capital expenditures analyst

c. Credit analyst

d. Cost analyst

e. Tax analyst

Answer: c

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

120. Involves evaluating financial performance and preparing financial plans.

a. Cash management analyst

b. Capital expenditures analyst

c. Credit analyst

d. Financial analyst

e. Tax analyst

Answer: d

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

121. Involves comparing actual operations against budgeted operations.

a. Cash management analyst

b. Capital expenditures analyst

c. Credit analyst

d. Cost analyst

e. Tax analyst

Answer: d

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

122. Involves preparing financial statements for tax purposes.

a. Cash management analyst

b. Capital expenditures analyst

c. Credit analyst

d. Cost analyst

e. Tax analyst

Answer: e

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

123. Involves evaluating consumer and/or commercial loan applications.

a. Loan analyst

b. Bank teller

c. Investments research analyst

d. Bank manager

Answer: a

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

124. Involves assisting customers with their day-to-day checking and banking transactions.

a. Loan analyst

b. Bank teller

c. Investments research analyst

d. Bank manager

Answer: b

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

125. Involves conducting research on investment opportunities for a bank trust department.

a. Loan analyst

b. Bank teller

c. Investments research analyst

d. Bank manager

Answer: c

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

126. Involves selling insurance to individuals and businesses and participating in the processing of claims.

a. Insurance broker

b. Research analyst

c. Real estate broker

d. Mortgage analyst

Answer: a

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

127. Involves analyzing the investment potential of real property and securities for pension fund holdings.

a. Insurance broker

b. Research analyst

c. Real estate broker

d. Mortgage analyst

Answer: b

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

128. Involves marketing and selling or leasing residential or commercial property.

a. Insurance broker

b. Research analyst

c. Real estate broker

d. Mortgage analyst

Answer: c

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

129. Involves analyzing real estate loan applications and assisting in the arranging of mortgage financing.

a. Insurance broker

b. Research analyst

c. Real estate broker

d. Mortgage analyst

Answer: d

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

130. Involves assisting clients in purchasing stocks and bonds and building investment wealth.

a. Stockbroker

b. Security analyst

c. Investment banking analyst

d. Financial planner assistant

Answer: a

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

131. Involves analyzing and making recommendations on the investment potential of specific securities.

a. Stockbroker

b. Security analyst

c. Investment banking analyst

d. Financial planner assistant

Answer: b

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

132. Involves conducting financial analysis and valuation of new securities being issued.

a. Stockbroker

b. Security analyst

c. Investment banking analyst

d. Financial planner assistant

Answer: c

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6

133. Involves analyzing individual client insurance needs and investment plans to meet retirement goals.

a. Stockbroker

b. Security analyst

c. Investment banking analyst

d. Financial planner assistant

Answer: d

Difficulty Level: Easy

Subject Heading: Careers in Finance

L.O. 1.6