

1. The New York Stock Exchange is primarily
  - a. A secondary market.
  - b. An organized auction market.
  - c. An over-the-counter market.
  - d. Answers a and b above are both correct.
  - e. Answers b and c above are both correct.
  
2. Money markets are markets for
  - a. Foreign currency exchange.
  - b. Consumer automobile loans.
  - c. Corporate stocks.
  - d. Long-term bonds.
  - e. Short-term debt securities.
  
3. You have just purchased shares in the Hi-Tech Long-Term Bond Fund, a mutual fund that invests in long-term corporate bonds. Your purchase constitutes
  - a. A direct transfer of funds.
  - b. An indirect transfer through an investment banker.
  - c. An indirect transfer through a financial intermediary.
  - d. A money market transaction.
  - e. All of the above.
  
4. Which of the following statements is correct?
  - a. The SEC must approve the price at which a stock is to be offered to the public when a company "goes public."
  - b. If a company's stock is listed, then it trades in the over-the-counter (OTC) market.
  - c. If the "preemptive right" exists in a company's charter, then the holders of its Class A shares have the right to receive a specified amount of dividends before dividends can be paid on Class B shares.
  - d. A "prospectus" is a document which describes a company and the securities it plans to offer, and the prospectus generally must be approved by the SEC before a public offering of new securities can be made.
  - e. The decision to list a company's stock generally is more important to the company than the decision to go public, i.e., listing has a larger impact on the way the firm is operated than does going public.
  
5. Which of the following statements about listing on a stock exchange is most correct?
  - a. Listing is a decision of more significance to a firm than going public.
  - b. Any firm can be listed on the NYSE as long as it pays the listing fee.
  - c. Listing provides a company with some "free" advertising, and status as a listed company may enhance the firm's prestige.
  - d. Listing reduces the reporting requirements for firms, because listed firms file reports with the exchange rather than with the SEC.
  - e. Statements b and c are both correct.
  
6. Most American investors who are interested in investing in companies listed on foreign exchanges do so by purchasing

- \_\_\_\_\_.
- Foreign stocks directly from brokers that do business in the country where the company is located.
  - Foreign stocks from brokers in the United States.
  - American Depository Receipts (ADRs) or mutual funds that hold international stocks.
  - Stocks directly from the foreign company.
  - None of the above.
7. Which of the following statements is correct?
- Flotation costs under a best-efforts arrangement typically are less for a given new equity issue than the costs associated with an underwritten offering, and the corporation is more certain of getting the needed funds under a best-efforts offering. This is why best efforts deals are most common.
  - If a firm decides to issue securities through a direct (or private) placement, then the underwriting syndicate that is formed to distribute the securities to the public may, at its discretion, decide either to guarantee or not to guarantee the sale of the securities.
  - If the demand curve for a firm's stock is relatively flat, the firm will have a more difficult time raising a large amount of new equity funds for expansion than would be true if this demand curve were steeper.
  - It is possible for a firm to go public, and yet not raise any additional capital.
  - None of the above is a correct statement.
8. Machina Corporation is financing an ongoing construction project. The firm needs \$8 million of new capital during each of the next three years. The firm has a choice of issuing new debt and equity each year as the funds are needed, or issuing the debt now and the equity later. The firm's capital structure is 40 percent debt and 60 percent equity. Flotation costs for a single debt issue would be 1.6 percent of the gross debt proceeds. Yearly flotation costs for three separate issues of debt would be 3.0 percent of the gross amount. Ignoring time value effects due to timing of the cash flows, what is the absolute difference in dollars saved by raising the needed debt all at once in a single issue rather than in three separate issues?
- \$0
  - \$171,387
  - \$140,809
  - \$156,098
  - \$134,400
9. \_\_\_\_\_ efficiency states that all information contained in past price movements only is fully reflected in the current market prices.
- Weak-form
  - Semistrong-form
  - Strong-form
  - Economic
10. \_\_\_\_\_ efficiency states that all publicly available information is reflected in current market prices.
- Weak-form
  - Semistrong-form
  - Strong-form

- d. Economic
11. \_\_\_\_ efficiency states that all private and publicly available information is reflected in the current market prices.
- Weak-form
  - Semistrong-form
  - Strong-form
  - Economic
12. If you purchase stock from a firm conducting a seasoned equity offering, this transaction will take place in \_\_\_\_ markets and \_\_\_\_ markets.
- capital; primary
  - capital; secondary
  - money; primary
  - money; secondary
13. If you purchase commercial paper that matures in 180 days from the issuing firm this transaction will take place in \_\_\_\_ markets and \_\_\_\_ markets.
- capital; primary
  - capital; secondary
  - money; primary
  - money; secondary
14. Which of the following assets are traded in the derivative markets?
- Stocks, bonds, and options
  - Stocks, futures, and options
  - Options, futures, and swaps
  - Futures, bonds, and swaps
15. \_\_\_\_ are individuals employed by brokerage firms that are members of the exchange.
- Commission brokers
  - Floor brokers
  - Competitive traders
  - Specialists
16. Which of the following is not a task that investment bankers perform?
- They buy securities from corporations trying to raise funds.
  - They take deposits from investors and make loans to corporations.
  - They resell securities purchased from corporations to investors.
  - They help corporations design securities with the features that are most attractive to investors given existing market conditions.

17. Students emerging from college and entering the work force typically consume \_\_\_\_\_ than their income resulting in \_\_\_\_\_.
- a. less; saving
  - b. more; borrowing
  - c. less; borrowing
  - d. more; saving
18. Financial markets are important because they
- a. allow individuals to transfer purchasing power over time.
  - b. provide for the efficient transfer funds to businesses.
  - c. facilitate exchanges between the providers and users of capital.
  - d. all of the above
19. \_\_\_\_\_ represent(s) ownership in a company and entitle(s) the holder to future cash distributions from the operations of the firm.
- a. Equity
  - b. Debt
  - c. Swaps
  - d. Options
20. The derivatives market allows for
- a. investors to speculate on price movements.
  - b. the purchase corporate debt.
  - c. the hedging of exposure to price movements
  - d. two of the above
  - e. all of the above