Investments 12th edition Bodie Test Bank

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Investments 12th Edition by Bodie CH01

ANSWERS ARE LOCATED IN THE SECOND PART OF THIS DOCUMENT

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

1) The material wealth of a society is a function of

1) ______

A) all financial assets.
B) all real assets.
C) all financial and real assets.
D) all physical assets.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

2) _______ are real assets.

2) ______

A) Land
B) Machines
C) Stocks and bonds
D) Knowledge
E) Land, machines, and knowledge

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

3) The means by which individuals hold their claims on real assets in a well-developed economy are

3) ______

A) investment assets.
B) depository assets.
C) derivative assets.
D) financial assets.
E) exchange-driven assets.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

4) _______ are financial assets.

4) ______

A) Bonds
B) Machines
C) Stocks
D) Bonds and stocks
E) Bonds, machines, and stocks

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

5) _________ financial asset(s).

5) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

6) Financial assets

6) ______

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

Question Details
AACSB : Reflective Thinking
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Bloom's : Understand
Topic : Real and financial assets

7) In 2018, ____________ was the most significant real asset of U.S. households in terms of total value.

7) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

8) In 2018, ____________ was the least significant financial asset of U.S. households in terms of total value.

8) ______

A) real estate
B) mutual fund shares
C) debt securities
D) life insurance reserves
E) pension reserves

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

9) In 2018, ____________ was the most significant financial asset of U.S. households in terms of total value.

9) ______

A) real estate
B) mutual fund shares
C) debt securities
D) life insurance reserves
E) pension reserves

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

10) In 2018, ____________ was the most significant asset of U.S. households in terms of total value.

10) ______

A) real estate
B) mutual fund shares
C) debt securities
D) life insurance reserves
E) pension reserves

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

11) In 2018, ____________ were the most significant liability of U.S. households in terms of total value.

11) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Debt financing

12) In 2018, which of the following financial assets make up the second highest proportion of the financial assets held by U.S. households?

12) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Difficulty : 2 Intermediate
Topic : Real and financial assets

13) In 2018, _______ of the assets of U.S. households were financial assets as opposed to tangible assets.

13) ______

A) 23.5%
B) 87.2%
C) 28.4%
D) 58.4%
E) 71.6%

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Difficulty : 2 Intermediate
Topic : Real and financial assets

14) The largest component of domestic net worth in 2018 was

14) ______

A) nonresidential real estate.
B) residential real estate.
C) inventories.
D) consumer durables.
E) equipment and software.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Difficulty : 2 Intermediate
Topic : Real and financial assets

15) The smallest component of domestic net worth in 2018 was

15) ______

A) nonresidential real estate.
B) residential real estate.
C) inventories.
D) consumer durables.
E) equipment and software.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Difficulty : 2 Intermediate
Topic : Real and financial assets

16) The domestic net worth of the U.S. in 2018 was

16) ______

A) $9.350 trillion.
B) $22.642 trillion.
C) $32.539 trillion.
D) $72.683 trillion.
E) $80.983 trillion.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Difficulty : 2 Intermediate
Topic : Real and financial assets

17) A fixed-income security pays

17) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Fixed-income securities

18) A debt security pays

18) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Fixed-income securities

19) Money market securities

19) ______

A) are short term.
B) are highly marketable.
C) are generally very low risk.
D) are highly marketable and are generally very low risk.
E) All of the options.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Money market securities

20) An example of a derivative security is

20) ______

A) a common share of Microsoft.
B) a call option on Intel stock.
C) a commodity futures contract.
D) a call option on Intel stock and a commodity futures contract.
E) a common share of Microsoft and a call option on Intel stock.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Derivatives - general

21) The value of a derivative security

21) ______

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

Question Details
AACSB : Reflective Thinking
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Bloom's : Understand
Topic : Derivatives - general

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

22) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Derivatives - general

23) Financial assets permit all of the following except

23) ______

A) consumption timing.
B) allocation of risk.
C) separation of ownership and control.
D) elimination of risk.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Difficulty : 2 Intermediate
Topic : Real and financial assets

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

24) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Agency problems and issues

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

25) ______

A) it encourages managers to undertake projects that will increase stock price.
B) it encourages managers to engage in empire building.
C) it can create an incentive for managers to manipulate information to prop up a stock price temporarily, giving them a chance to cash out before the price returns to a level reflective of the firm's true prospects.
D) All of the above.

Question Details
AACSB : Reflective Thinking
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Bloom's : Understand
Topic : Employee stock options

26) Which of the following are mechanisms that have evolved to mitigate potential agency problems? 1.I) Using the firm's stock options for compensation
2.II) Hiring bickering family members as corporate spies
3.III) Boards of directors forcing out underperforming management
4.IV) Security analysts monitoring the firm closely
5.V) Takeover threats

26) ______

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

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Intermediate
Topic : Agency problems and issues

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

27) ______

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

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Intermediate
Topic : Agency problems and issues

28) Theoretically, takeovers should result in

28) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Agency problems and issues

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

I) manipulation of financial data to misrepresent the actual condition of the firm.
II) misleading and overly optimistic research reports produced by analysts.
III) allocating IPOs to executives as a quid pro quo for personal favors.
IV) greenmail.

29) ______

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

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Intermediate
Topic : Ethics and corporate governance

30) The Sarbanes-Oxley Act

30) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Difficulty : 2 Intermediate
Topic : Financial market regulation and protections

31) Asset allocation refers to

31) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Difficulty : 2 Intermediate
Topic : Asset allocation and security selection

32) Security selection refers to

32) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Difficulty : 2 Intermediate
Topic : Asset allocation and security selection

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

33) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Difficulty : 2 Intermediate
Topic : Portfolio construction

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

34) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Difficulty : 2 Intermediate
Topic : Portfolio construction

35) _______ are examples of financial intermediaries.

35) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Financial intermediaries and market participants

36) Financial intermediaries exist because small investors cannot efficiently

36) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Financial intermediaries and market participants

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

37) ______

A) Commercial bankers
B) Investment bankers
C) Investment issuers
D) Credit raters

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Financial intermediaries and market participants

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

38) ______

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

Question Details
AACSB : Reflective Thinking
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Bloom's : Understand
Topic : Financial intermediaries and market participants

39) In 2018, ____________ was(were) the most significant financial asset(s) of U.S. commercial banks in terms of total value.

39) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Financial intermediaries and market participants

40) In 2018, ____________ was(were) the most significant liability(ies) of U.S. commercial banks in terms of total value.

40) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Financial intermediaries and market participants

41) In 2018, ____________ was(were) the most significant real asset(s) of U.S. nonfinancial businesses in terms of total value.

41) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

42) In 2018, ____________ was(were) the least significant real asset(s) of U.S. nonfinancial businesses in terms of total value.

42) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

43) In 2018, ____________ was(were) the least significant liability(ies) of U.S. nonfinancial businesses in terms of total value.

43) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Debt financing

44) In terms of total value, the most significant liability(ies) of U.S. nonfinancial businesses in 2018 was(were)

44) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Debt financing

45) In 2018, ____________ was(were) the least significant financial asset(s) of U.S. nonfinancial businesses in terms of total value.

45) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Real and financial assets

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

46) ______

A) primary
B) secondary
C) over-the-counter
D) primary and secondary

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Primary and secondary markets

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

47) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Primary and secondary markets

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

48) ______

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

Question Details
AACSB : Reflective Thinking
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Bloom's : Understand
Topic : Financial intermediaries and market participants

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

49) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Financial market regulation and protections

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

50) ______

A) term spread.
B) T-bill spread.
C) LIBOR spread.
D) TED spread.

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Interest rates

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

51) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Mortgage securities and issues

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

52) ______

A) credit enhancement.
B) credit swap.
C) unbundling.
D) derivatives.

Question Details
AACSB : Reflective Thinking
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Bloom's : Understand
Topic : Mortgage securities and issues

53) Which of the following is true about mortgage-backed securities? 1.I) They aggregate individual home mortgages into homogeneous pools.
2.II) The purchaser receives monthly interest and principal payments received from payments made on the pool.
3.III) The banks that originated the mortgages maintain ownership of them.
4.IV) The banks that originated the mortgages may continue to service them.

53) ______

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

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Understand
Difficulty : 2 Intermediate
Topic : Mortgage securities and issues

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

54) ______

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

Question Details
AACSB : Reflective Thinking
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Bloom's : Understand
Topic : Collateralized mortgage obligations

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

55) ______

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

Question Details
AACSB : Reflective Thinking
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Bloom's : Understand
Topic : Swaps

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

56) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Financial intermediaries and market participants

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

57) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Financial intermediaries and market participants

58) Which country has banned initial coin offerings?

58) ______

A) China
B) Germany
C) Japan
D) USA
E) All of the options

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Financial intermediaries and market participants

59) The Economic Growth, Regulatory Relief and Consumer Protection Act of 2019 exempted smaller banks from which rule?

59) ______

A) Liquidity
B) Reserves
C) Demand deposit
D) Volker
E) All of the options

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Financial market regulation and protections

60) According to the Economic Growth, Regulatory Relief and Consumer Protection Act of 2019 many larger banks are no longer considered ________________.

60) ______

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

Question Details
AACSB : Reflective Thinking
Bloom's : Remember
Difficulty : 1 Basic
Accessibility : Keyboard Navigation
Topic : Financial market regulation and protections

Investments 12th Edition by Bodie CH01

Answer Key

Test name: CH01

1) B
The material wealth of a society is a function of all real assets.
2) E
Land, machines and knowledge are real assets; stocks and bonds are financial assets.
3) D
Financial assets allocate the wealth of the economy. Example: it is easier for an individual to own shares of an auto company than to own an auto company directly.
4) D
Machines are real assets; stocks and bonds are financial assets.
5) E
Buildings and land are real assets.
6) B
Financial assets indirectly contribute to the country's productive capacity because these assets permit individuals to invest in firms and governments. This in turn allows firms and governments to increase productive capacity.
7) C

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	$ Total
Real assets			Liabilities		
Real estate	$ 28,816	23.5%	Mortgages	$ 10,437	8.5%
Consumer durables	5,411	4.4	Consumer credit	3,865	3.2
Other	628	0.5	Bank and other loans	1,207	1.0

Total real assets	$ 34,855	28.4%	Other	219	0.2
			Total liabilities	$ 15,727	12.8%
Financial assets					
Deposits and money market shares	$ 12,442	10.1%			
Life insurance reserves	1,647	1.3			
Pension reserves	26,069	21.3			
Corporate equity	18,106	14.8			
Equity in noncorporate business	13,044	10.6			
Mutual fund shares	8,764	7.1			
Debt securities	6,210	5.1			
Other	1,521	1.2			
Total financial assets	$ 87,802	71.6	Net worth	106,929	87.2
Total	$122,657	100.0%		$ 122,657	100.0%

Balance sheet of U.S. households

Note: Column sums may differ from total because of rounding error.

Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.

8) D

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	$ Total
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Total real assets	$ 34,855	28.4 %	Other	219	0.2
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Financial assets					
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Balance sheet of U.S. households
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Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.

9) E

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	$ Total
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Total real assets	$ 34,855	28.4%	Other	219	0.2
			Total liabilities	$ 15,727	12.8%
Financial assets					
Deposits and money market shares	$ 12,442	10.1%			
Life insurance reserves	1,647	1.3			
Pension reserves	26,069	21.3			
Corporate equity	18,106	14.8			
Equity in noncorporate business	13,044	10.6			
Mutual fund shares	8,764	7.1			
Debt securities	6,210	5.1			
Other	1,521	1.2			
Total financial assets	$ 87,802	71.6	Net worth	106,929	87.2
Total	$122,657	100.0%		$ 122,657	100.0%

Balance sheet of U.S. households
Note: Column sums may differ from total because of rounding error.
Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.

10) A

Assets	$	%	Liabilities and	$ Billion	$ Total

	Billion	Total			
Real assets			Liabilities and Net Worth		
Real estate	$ 28,816	23.5%	Mortgages	$ 10,437	8.5%
Consumer durables	5,411	4.4	Consumer credit	3,865	3.2
Other	628	0.5	Bank and other loans	1,207	1.0
Total real assets	$ 34,855	28.4%	Other	219	0.2
			Total liabilities	$ 15,727	12.8%
Financial assets					
Deposits and money market shares	$ 12,442	10.1%			
Life insurance reserves	1,647	1.3			
Pension reserves	26,069	21.3			
Corporate equity	18,106	14.8			
Equity in noncorporate business	13,044	10.6			
Mutual fund shares	8,764	7.1			
Debt securities	6,210	5.1			
Other	1,521	1.2			
Total financial assets	$ 87,802	71.6	Net worth	106,929	87.2
Total	$122,657	100.0%		$ 122,657	100.0%

Balance sheet of U.S. households

Note: Column sums may differ from total because of rounding error.

Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.

11) B

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	$ Total
Real assets			Liabilities		
Real estate	$ 28,816	23.5%	Mortgages	$ 10,437	8.5%
Consumer durables	5,411	4.4	Consumer credit	3,865	3.2
Other	628	0.5	Bank and other loans	1,207	1.0
Total real assets	$ 34,855	28.4%	Other	219	0.2
			Total liabilities	$ 15,727	12.8%
Financial assets					
Deposits and money market shares	$ 12,442	10.1%			
Life insurance reserves	1,647	1.3			
Pension reserves	26,069	21.3			
Corporate equity	18,106	14.8			
Equity in noncorporate business	13,044	10.6			
Mutual fund shares	8,764	7.1			
Debt securities	6,210	5.1			
Other	1,521	1.2			
Total financial assets	$ 87,802	71.6	Net worth	106,929	87.2
Total	$122,657	100.0%		$ 122,657	100.0%

Balance sheet of U.S. households
Note: Column sums may differ from total because of rounding error.
Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.
12) A

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	$ Total
Real assets			Liabilities		
Real estate	$ 28,816	23.5%	Mortgages	$ 10,437	8.5%
Consumer durables	5,411	4.4	Consumer credit	3,865	3.2
Other	628	0.5	Bank and other loans	1,207	1.0
Total real assets	$ 34,855	28.4%	Other	219	0.2
			Total liabilities	$ 15,727	12.8%
Financial assets					
Deposits and money market shares	$ 12,442	10.1%			
Life insurance reserves	1,647	1.3			
Pension reserves	26,069	21.3			
Corporate equity	18,106	14.8			
Equity in noncorporate business	13,044	10.6			
Mutual fund shares	8,764	7.1			
Debt securities	6,210	5.1			
Other	1,521	1.2			
Total financial assets	$ 87,802	71.6	Net worth	106,929	87.2

Total	$122,657	100.0%		$ 122,657	100.0%

Balance sheet of U.S. households

Note: Column sums may differ from total because of rounding error.

Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.

13) E

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	$ Total
Real assets			Liabilities		
Real estate	$ 28,816	23.5%	Mortgages	$ 10,437	8.5%
Consumer durables	5,411	4.4	Consumer credit	3,865	3.2
Other	628	0.5	Bank and other loans	1,207	1.0
Total real assets	$ 34,855	28.4%	Other	219	0.2
			Total liabilities	$ 15,727	12.8%
Financial assets					
Deposits and money market shares	$ 12,442	10.1%			
Life insurance reserves	1,647	1.3			
Pension reserves	26,069	21.3			
Corporate equity	18,106	14.8			
Equity in noncorporate business	13,044	10.6			
Mutual fund shares	8,764	7.1			
Debt securities	6,210	5.1			
Other	1,521	1.2			

Total financial assets	$ 87,802	71.6	Net worth	106,929	87.2
Total	$122,657	100.0%		$ 122,657	100.0%

Balance sheet of U.S. households
Note: Column sums may differ from total because of rounding error.
Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.

14) B

Assets	$ Billion
Commercial real estate	$ 22,642
Residential real estate	32,539
Equipment and intellectual property	9,350
Inventories	2,741
Consumer durables	5,411
Total	$ 72,683

Note: Column sums may differ from total because of rounding error.
Source: Flow of Funds Accounts of the United States, Board of Governors of the
Federal Reserve System, September 2018.

15) C

Assets	$ Billion
Commercial real estate	$ 22,642
Residential real estate	32,539
Equipment and intellectual property	9,350
Inventories	2,741

Consumer durables	5,411
Total	$ 72,683

Note: Column sums may differ from total because of rounding error.
Source: Flow of Funds Accounts of the United States, Board of Governors of the
Federal Reserve System, September 2018.

16) D

Assets	$ Billion
Commercial real estate	$ 22,642
Residential real estate	32,539
Equipment and intellectual property	9,350
Inventories	2,741
Consumer durables	5,411
Total	$ 72,683

Note: Column sums may differ from total because of rounding error.
Source: Flow of Funds Accounts of the United States, Board of Governors of the
Federal Reserve System, September 2018.

17) B

A fixed-income security pays a fixed stream of income or a stream of income that is determined according to a specified formula for the life of the security.

18) D

A debt security pays a fixed stream of income or a stream of income that is determined according to a specified formula for the life of the security.

19) E
All answers are correct.
20) D
The values of a call option on Intel stock and a commodity futures contract are derived from that of an underlying asset; the value of a common share of Microsoft is based on the value of the firm only.
21) A
Of the factors cited above, only the value of the related security affects the value of the derivative and/or is a true statement.
22) D
Firms may use forward contracts and futures to protect against currency fluctuations or changes in commodity prices. Interest-rate options help companies control financing costs.
23) D
Financial assets do not allow risk to be eliminated. However, they do permit allocation of risk, consumption timing, and separation of ownership and control.
24) A
The agency problem describes potential conflict between management and shareholders. The other problems are those of firm management only.
25) C
Encouraging managers to undertake projects that will increase stock price is a desired characteristic. Encouraging managers to engage in empire building is not necessarily a good or bad thing in and of itself. Creating an incentive for managers to manipulate information to prop up a stock price temporarily creates an agency problem.
26) C
All the options except hiring bickering family members as corporate spies have been used to try to limit agency problems.

27) D
Proxy fights are expensive and seldom successful, and management may often control the board or own significant shares. It is the threat of takeover of underperforming firms that has the strongest ability to keep management on their toes.
28) D
Theoretically, when firms are taken over, better managers come in and thus increase the price of the stock; existing management often must either leave the firm, be demoted, or suffer a loss of existing benefits.
29) E
I, II, and III are all mentioned as causes of recent scandals.

30) E
The Sarbanes-Oxley Act does all of the above.
31) C
Asset allocation refers to the allocation of assets into broad asset classes.
32) A
Security selection refers to choosing which securities to hold based on their valuation.
33) B
Bottom-up refers to using security analysis to find securities that are attractively priced. Top-down refers to using asset allocation as a starting point.
34) A
Bottom-up refers to using security analysis to find securities that are attractively priced.
35) E
All are institutions that bring borrowers and lenders together.
36) E

The individual investor cannot efficiently and effectively perform any of the tasks above without more time and knowledge than that available to most individual investors.

37) B

An important role of investment banking is to act as middlemen in helping firms place new issues in the market.

38) B

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	% Total
Real assets			Liabilities		
Equipment and premises	$ 126.7	0.7%	Deposits	$13,468.7	76.8%
Other real estate	7.6	0.0	Debt and other borrowed funds	1,201.5	6.9
Total real assets	$ 134.3	0.8%	Federal funds and repurchase agreements	252.2	1.4
			Other	626.6	3.6
			Total liabilities	$15,549.0	88.7%
Financial assets					
Cash	$ 1,832.2	10.5%			
Investment securities	3,633.3	20.7			
Loans and leases	9,733.3	55.5			
Other financial assets	1,036.1	5.9			
Total financial assets	$16,234.9	92.6%			
Other assets					
Intangible assets	$ 391.7	2.2%			

Other	771.9	4.4			
Total other assets	$ 1,163.6	6.6%	Net worth	$ 1,983.8	11.3%
Total	$17,532.8	100.0%		$17,532.8	100.0%

Balance sheet of FDIC-insured commercial banks and savings institutions
Note: Column sums may differ from total because of rounding error.
Source: Federal Deposit Insurance Corporation, www.fdic.gov, October 2018.

39) A

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	% Total
Real assets			Liabilities		
Equipment and premises	$ 126.7	0.7%	Deposits	$13,468.7	76.8%
Other real estate	7.6	0.0	Debt and other borrowed funds	1,201.5	6.9
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Other assets					
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Total	$17,532.8	100.0%		$17,532.8	100.0%

Balance sheet of FDIC-insured commercial banks and savings institutions

Note: Column sums may differ from total because of rounding error.

Source: Federal Deposit Insurance Corporation, www.fdic.gov, October 2018.

40) D

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	% Total
Real assets			Liabilities		
Equipment and premises	$ 126.7	0.7%	Deposits	$13,468.7	76.8%
Other real estate	7.6	0.0	Debt and other borrowed funds	1,201.5	6.9
Total real assets	$ 134.3	0.8%	Federal funds and repurchase agreements	252.2	1.4
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Financial assets					
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Loans and leases	9,733.3	55.5			
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Total financial assets	$16,234.9	92.6%			
Other assets					
Intangible assets	$ 391.7	2.2%			
Other	771.9	4.4			
Total other assets	$ 1,163.6	6.6%	Net worth	$ 1,983.8	11.3%
Total	$17,532.8	100.0%		$17,532.8	100.0%

Balance sheet of FDIC-insured commercial banks and savings institutions

Note: Column sums may differ from total because of rounding error.

Source: Federal Deposit Insurance Corporation, www.fdic.gov, October 2018.

41) C

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	% Total
Real assets			Liabilities		
Equipment and intellectual property	$ 7,590	16.7%	Bonds and mortgages	$ 6,810	15.0%
Real estate	13,607	29.9	Bank loans	1,095	2.4
Inventories	2,481	5.5	Other loans	1,519	3.3
Total real assets	$23,678	52.1%	Trade debt	2,595	5.7
			Other	8,145	17.9

			Total liabilities	$ 20,165	44.4 %
Financial assets					
Deposits and cash	$ 1,396	3.1 %			
Marketable securities	2,958	6.5			
Trade and consumer credit	3,430	7.5			
Other	14,003	30.8			
Total financial assets	$ 21,786	47.9 %	Net worth	$ 25,299	55.6 %
Total	$ 45,464	100.0 %		$ 45,464	100.0 %

Balance sheet of U.S. nonfinancial corporations
Note: Column sums may differ from total because of rounding error.
Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.

42) B

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	% Total
Real assets			Liabilities		
Equipment and intellectual property	$ 7,590	16.7 %	Bonds and mortgages	$ 6,810	15.0 %
Real estate	13,607	29.9	Bank loans	1,095	2.4
Inventories	2,481	5.5	Other loans	1,519	3.3
Total real assets	$ 23,678	52.1 %	Trade debt	2,595	5.7
			Other	8,145	17.9
			Total liabilities	$ 20,165	44.4 %
Financial assets					

Deposits and cash	$ 1,396	3.1%			
Marketable securities	2,958	6.5			
Trade and consumer credit	3,430	7.5			
Other	14,003	30.8			
Total financial assets	$21,786	47.9%	Net worth	$25,299	55.6%
Total	$45,464	100.0%		$45,464	100.0%

Balance sheet of U.S. nonfinancial corporations
Note: Column sums may differ from total because of rounding error.
Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.

43) B

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	% Total
Real assets			Liabilities		
Equipment and intellectual property	$ 7,590	16.7%	Bonds and mortgages	$ 6,810	15.0%
Real estate	13,607	29.9	Bank loans	1,095	2.4
Inventories	2,481	5.5	Other loans	1,519	3.3
Total real assets	$23,678	52.1%	Trade debt	2,595	5.7
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Financial assets					
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Other	14,003	30.8			
Total financial assets	$21,786	47.9%	Net worth	$25,299	55.6%
Total	$45,464	100.0%		$45,464	100.0%

Balance sheet of U.S. nonfinancial corporations
Note: Column sums may differ from total because of rounding error.
Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.

44) D

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	% Total
Real assets			Liabilities		
Equipment and intellectual property	$ 7,590	16.7%	Bonds and mortgages	$ 6,810	15.0%
Real estate	13,607	29.9	Bank loans	1,095	2.4
Inventories	2,481	5.5	Other loans	1,519	3.3
Total real assets	$23,678	52.1%	Trade debt	2,595	5.7
			Other	8,145	17.9
			Total liabilities	$20,165	44.4%
Financial assets					
Deposits and cash	$ 1,396	3.1%			
Marketable securities	2,958	6.5			
Trade and consumer credit	3,430	7.5			
Other	14,003	30.8			

Total financial assets	$21,786	47.9%	Net worth	$25,299	55.6%
Total	$45,464	100.0%		$45,464	100.0%

Balance sheet of U.S. nonfinancial corporations

Note: Column sums may differ from total because of rounding error.

Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.

45) A

Assets	$ Billion	% Total	Liabilities and Net Worth	$ Billion	% Total
Real assets			Liabilities		
Equipment and intellectual property	$ 7,590	16.7%	Bonds and mortgages	$ 6,810	15.0%
Real estate	13,607	29.9	Bank loans	1,095	2.4
Inventories	2,481	5.5	Other loans	1,519	3.3
Total real assets	$23,678	52.1%	Trade debt	2,595	5.7
			Other	8,145	17.9
			Total liabilities	$20,165	44.4%
Financial assets					
Deposits and cash	$ 1,396	3.1%			
Marketable securities	2,958	6.5			
Trade and consumer credit	3,430	7.5			
Other	14,003	30.8			
Total financial assets	$21,786	47.9%	Net worth	$25,299	55.6%
Total	$45,464	100.0%		$45,464	100.0%

Balance sheet of U.S. nonfinancial corporations
Note: Column sums may differ from total because of rounding error.
Source: Flow of Funds Accounts of the United States, Board of Governors of the Federal Reserve System, September 2018.
46) A
New issues of securities are sold in the primary market.
47) B
Investors trade previously issued securities in the secondary market.
48) D
Investment bankers perform all of the roles described above for their clients.
49) B
Until 1999, the Glass-Steagall Act prohibited banks in the United States from both accepting deposits and underwriting securities.
50) D
The spread between the LIBOR and the Treasury-bill rate is called the TED spread.
51) D
Mortgage-backed securities were created when FNMA and FHLMC began buying mortgage loans from originators and bundling them into large pools that could be traded like any other financial asset.
52) B
The financial asset is secured by the mortgages backing the instrument.
53) B
III is not correct because the bank no longer owns the mortgage investments.
54) D

Collateralized debt obligations were designed to concentrate the credit risk of a bundle of loans on one class of investor, leaving the other investors in the pool relatively protected from that risk.
55) A
Credit default swaps are in essence an insurance contract against the default of one or more borrowers.
56) B
57) C
58) A
59) D
60) D