

Fundamentals of Investing, 12e (Smart/Gitman/Joehnk)
Chapter 1 The Investment Environment

1.1 Learning Goal 1

1) A non-interest bearing checking account is still considered an investment.

Answer: FALSE

Learning Outcome: F-03 Explain the process of valuing costs and benefits and show the relationship between interest rates and the time value of money

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

2) Land and buildings are examples of real property investments.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

3) The percentage of common stock owned directly by U.S. households has dramatically increased since 1945.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

4) A United States Savings Bond is an example of an investment as defined in the text.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

5) Mutual funds are traded on exchanges and priced continuously throughout the trading day.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

6) Which of the following is NOT an investment as defined in the text?

- A) a certificate of deposit issued by a bank
- B) a new automobile
- C) a United States Saving Bond
- D) a mutual fund held in a retirement account

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Revised

7) Stocks are a(n) _____ investment representing _____ of a business.

- A) direct; ownership
- B) direct; debt
- C) indirect; ownership
- D) indirect; debt

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

8) An exchange traded fund that invests in the stocks of large corporations is an example of

- A) direct investment.
- B) indirect investment.
- C) derivative investment.
- D) tangible investment.

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

9) Typical hedge funds are characterized by

- A) limited risk investment strategies.
- B) low minimum investment requirements.
- C) high minimum invested requirements.
- D) their appeal to a large number of small investors.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

- 10) Debt represents funds loaned in exchange for
- A) dividend income and the repayment of the loan principal.
 - B) dividend income and an ownership interest in the firm.
 - C) interest income and a partial ownership interest in the firm.
 - D) interest income and the repayment of the loan principal.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

1.2 Learning Goal 2

- 1) Institutional investors manage money for businesses and nonprofit organizations, but not for individuals.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

- 2) Institutional investors are individuals who invest indirectly through financial institutions.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

- 3) Banks and insurance companies are examples of institutional investors.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

- 4) In the financial markets, individuals are net demanders of funds.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Revised

- 5) The government is generally
- A) not involved in the financial markets.
 - B) the owner of the financial market.
 - C) a supplier of funds to the financial market.
 - D) a demander of funds in the financial market.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

- 6) On a net basis, funds in the financial markets are generally supplied by
- A) individuals.
 - B) both individuals and business firms.
 - C) business firms.
 - D) the government.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

- 7) A forum in which suppliers and demanders of funds make financial transactions is called a financial
- A) institution.
 - B) bank.
 - C) instrument.
 - D) market.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

- 8) Which of the following are true concerning institutional investors?
- I. Institutional investors are professionals who manage money for other people.
 - II. Banks, insurance companies and mutual funds are all institutional investors.
 - III. Institutional investors are individuals who invest indirectly through financial institutions.
 - IV. Institutional investors invest large sums of money.
- A) I and II only
 - B) I, II and IV only
 - C) II, III and IV only
 - D) I, II, III and IV

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

9) Which of the following are traded in the securities market?

- A) stocks
- B) bonds
- C) derivatives
- D) all of the above

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

10) Describe the major differences between individual and institutional investors.

Answer: Individual investors manage their own funds to achieve individual goals such as increasing financial security or financing a comfortable retirement. Institutional investors such as mutual funds and insurance companies manage funds for individuals who lack the time or expertise to invest individually and for other institutions such as universities or charities.

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

1.3 Learning Goal 3

1) Bond investors lend their money for a fixed period of time and receive interest.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

2) A collection of securities designed to meet an investment goal is called a portfolio.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

3) If the value of a common stock increases the value of an option to buy that stock should also increase.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

4) An option to purchase common stock is a type of equity security.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

5) Bonds represent a lower level of risk than do stocks in the same company.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

6) Exchange traded funds similar to mutual funds, but are traded like stocks.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

7) Mutual funds invest in diversified portfolios of securities.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

8) Bond prices rise as interest rates decline.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

9) Bond interest and stock dividends are different ways of distributing a corporation's earnings to its owners.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Revised

10) Which of the following is an example of a tangible asset.

- A) Bonds
- B) mutual funds
- C) real estate
- D) stocks

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

11) Which one of the following would be the most liquid investment?

- A) stock
- B) Series EE bond
- C) money market mutual fund
- D) real estate

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

12) Which of the following investments represents partial ownership of a corporation?

- A) bonds
- B) mutual funds
- C) commercial paper
- D) common stock

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

13) Investors seeking a diversified, professionally managed portfolio of securities can purchase shares of

- A) preferred stock.
- B) convertible securities.
- C) insurance policies.
- D) mutual funds.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

14) Advantages of investing in real estate potentially include

- I. rental income.
- II. liquidity.
- III. tax write offs.
- IV. capital gains.
- A) I and IV only
- B) II and IV only
- C) I, II and IV only
- D) I, II, III and IV

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

1.4 Learning Goal 4

1) Earning a high rate of return with little or no risk is a realistic investment goal.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

2) Under current tax laws, most taxpayers will pay a lower tax rate on capital gains than on dividends.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Revised

3) Under current tax laws, most taxpayers will pay a lower tax rate on capital gains than on income from wages.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: New Question

4) Investors can postpone or avoid income taxes by investing through Individual Retirement Accounts.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

5) Short-term capital gains are taxed at the taxpayer's marginal tax rate.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

6) To qualify for long-term capital gains rates, a stock must be held for at least 12 months.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Revised

7) Retirement plans, such as a 401(k), allow employees to defer taxes on the plan contributions until such time as the funds are withdrawn from the retirement plan.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

8) You should spend money on housing, clothing and basic insurance before investing.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

9) Which of the following represent investment goals?

I. saving for major expenditures such as a house or education

II. sheltering income from taxes

III. increasing current income

IV. saving funds for retirement

A) I and IV only

B) I, III and IV only

C) III and IV only

D) I, II, III and IV

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Revised

10) In selecting investments consistent with your goals, you should consider

- A) rates of return and taxes only.
- B) the pre-tax rate of return only.
- C) annual dividends and taxes only.
- D) risks, returns, and taxes.

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

11) Sarah purchased a stock one year ago at a price of \$32 a share. In the past year, she has received four quarterly dividends of \$0.75 each. Today she sold the stock for \$38 a share. Her capital gain per share is

- A) \$3.00.
- B) \$6.00.
- C) \$(6.00).
- D) \$9.00.

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

12) Monitoring and restructuring your investments is called

- A) diversification.
- B) valuation.
- C) portfolio management.
- D) financial planning.

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

13) Beginning investors with small amounts to invest should

- A) avoid stock investments completely.
- B) invest all of their money in one high quality stock.
- C) buy mutual funds or exchange traded funds (ETFs).
- D) buy a portfolio of very low priced stocks (penny stocks).

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: New Question

14) Wages, tips, pension income and alimony are examples of

- A) portfolio income.
- B) active income.
- C) non-taxable income.
- D) passive income.

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

Table 1.4

Use the following tax rates and income brackets for 2012 to answer the following question(s).

| Tax Rates | Individual Returns | Joint Returns |
|-----------|------------------------|------------------------|
| 10% | \$0 to \$8,700 | \$0 to \$17,400 |
| 15% | \$8,701 to \$35,350 | \$17,401 to \$70,700 |
| 25% | \$35,351 to \$85,650 | \$70,701 to \$142,700 |
| 28% | \$85,651 to \$178,650 | \$142,701 to \$217,450 |
| 33% | \$178,651 to \$388,350 | \$217,451 to \$388,350 |
| 35% | Over \$388,351 | Over \$388,351 |

15) In 2012, John and Nicole earned a combined taxable income of \$148,800 from employment plus \$1,000 in long term capital gains and they file a joint tax return. What is their total federal income tax? Round to the nearest dollar.

- A) \$41,664
- B) \$29,723
- C) \$29,593
- D) \$22,320

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: New Question

16) Josh earned \$82,500 in taxable income, all from wages and interest, and files an individual tax return. What is the amount of Josh's taxes for the year 2012? Round to the nearest dollar.

- A) \$13,750
- B) \$16,665
- C) \$18,425
- D) \$20,625

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Revised

17) For a taxpayer in the 25% marginal tax bracket, a long-term capital gain realized in 2012 will be taxed at

- A) 5%.
- B) 10%.
- C) 15%.
- D) 25%.

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Revised

18) Andrew and Jennifer are in the 25% marginal tax bracket. Three years ago they purchased 100 shares of stock at \$20 a share. In 2012, they sold the 100 shares for \$29 a share. What is the amount of federal income tax they owe as a result of this sale?

- A) \$135
- B) \$165
- C) \$225
- D) \$435

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Revised

19) Danielle and Jonathan are in the 28% marginal tax bracket. They bought 200 shares of DJN stock at \$35 per share and sold them 4 years later in 2012 at \$12 per share? How much did their loss reduce their taxes in the year when they sold the stock?

- A) \$0
- B) \$450
- C) \$840
- D) \$1,288

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Revised

20) Under current tax law, dividend income is taxed at the same rate as

- A) ordinary income.
- B) short-term capital gains.
- C) long-term capital gains.
- D) interest income.

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

21) Both the holding period to qualify and the tax rate on long-term capital gains

- A) are subject to political pressure and change frequently.
- B) are very stable and have not changed in many years.
- C) are phased out on incomes over \$388,351.
- D) are adjusted for inflation every year.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: New Question

22) Tax planning

- A) guides investment activities to maximize after-tax returns over the long term for an acceptable level of risk.
- B) ignores the source of income and concentrates solely on the amount of income.
- C) is primarily done by individuals with incomes below \$200,000.
- D) is limited to reviewing income for the current year and determining how to minimize current taxes.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

23) Speculative and growth oriented investments are least appropriate for

- A) young investors.
- B) middle-aged investors.
- C) retired investors.
- D) high income investors.

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

24) Investors seeking to increase their wealth as quickly as possible would invest in

- A) corporate bonds and preferred stock.
- B) large company stocks with high dividends.
- C) smaller companies pursuing rapid growth.
- D) government bonds and low-risk income stocks.

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

25) Discuss the relationship between stock prices and investors' beliefs about the business cycle.
Answer: Stock prices tend to anticipate the economic conditions that investors expect in the future. When they believe that economic conditions will deteriorate and profits will decline, stock prices fall. When they expect an improving economy and higher corporate profits, stock prices rise.

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

26) What are some of the important prerequisites to investing?

Answer: Before entering into risky investments, individuals need to provide for the necessities of life such as housing, transportation, and taxes. They should have liquid assets available to meet unforeseen emergencies such as job loss, auto repairs or dental treatments. They should also have insurance for catastrophic events involving health or property.

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

27) Discuss the general investment philosophy and the types of investments preferred by investors in each phase of the life cycle.

Answer:

| Life Cycle Phase | Philosophy | Types of Investments |
|-----------------------|--|---|
| Young investors | Growth | Growth stocks, options, and futures |
| Middle-aged investors | Growth and income | Higher quality stocks, preferred stocks, convertibles, high-grade bonds, and mutual funds |
| Retired investors | Preservation of capital and current income | Low risk stocks, short-term bonds, certificates of deposit |

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

1.5 Learning Goal 5

1) U. S. Treasury Bills mature in 1 year or less.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

2) Liquidity is the ability to convert an investment into cash quickly with little or no loss of value.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

3) Short-term investments generally provide liquidity, safety, and a high rate of return.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

4) Money market accounts, certificates of deposit, bonds and commercial paper are all forms of short-term investment vehicles.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

5) The primary risk associated with a short-term investment is

A) purchasing power risk.

B) default risk.

C) interest rate risk.

D) economic risk.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

6) Short-term investments

I. provide liquidity.

II. fill an important part of most investment programs.

III. provide a high rate of return with low risk.

IV. provide resources for emergencies.

A) I and IV only

B) II and IV only

C) I, II and IV only

D) I, II, III and IV

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

7) Federal insurance protects passbook savings accounts and money market deposit accounts (MMDAs) up to

- A) \$100,000.
- B) \$150,000.
- C) \$250,000.
- D) \$1,000,000.

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

8) Beginning in 2010, the amount protected by the Federal Deposit Insurance Corporation in non-interest bearing checking accounts is

- A) zero.
- B) \$100,000.
- C) unlimited.
- D) \$250,000.

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: New Question

9) Which of the following typically offers the highest rate of return?

- A) certificates of deposit
- B) passbook savings accounts
- C) Now accounts
- D) money market deposit accounts

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

10) Which one of the following has the lowest level of risk?

- A) commercial paper
- B) money market mutual fund account
- C) banker's acceptance
- D) U.S. Treasury bill

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 3 Analytic Skills

Question Status: Previous Edition

1.6 Learning Goal 6

1) Commercial bankers work with corporate and institutional clients, but not with individuals.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

2) A major goal of corporate financial management is to increase the value of the firm to investors.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

3) Stringent regulations and vigorous enforcement have all but eliminated unethical behavior by financial professionals in recent years.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

4) Insurance companies invest the premiums and fees collected from customers in order to neutralize the risks assumed from their clients.

Answer: TRUE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

5) Chartered Financial Analyst (CFA) is a degree offered by several prestigious business schools.

Answer: FALSE

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

- 6) Typical responsibilities of financial professionals in a corporate setting include
- I. managing cash and short-term investments.
 - II. evaluating investment opportunities.
 - III. working one on one with individuals to formulate plans for reaching their financial goals.
 - IV. interacting with financial markets to find sources of external financing such as debt and equity.

- A) I and IV only
- B) I, II and IV only
- C) II, III and IV only
- D) I, II, III and IV

Answer: B

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

- 7) Jobs in which of the following fields require an understanding of the investment environment?
- I. commercial banking
 - II. corporate finance
 - III. financial planning
 - IV. insurance

- A) I and IV only
- B) I, II and IV only
- C) II, III and IV only
- D) I, II, III and IV

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

- 8) A major function of investment banking firms is
- A) providing loans to investors.
 - B) providing financial planning services to wealthy individuals.
 - C) assisting businesses when they issue stocks and bonds.
 - D) developing investment strategies to neutralize risk.

Answer: C

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

9) Which of the following has set an outstanding example of ethical behavior in the financial professions?

- A) Bernard Madoff of Madoff Securities
- B) former U.S. senator and governor of New Jersey John Corzine of MF Global
- C) Ramalinga Rau of Satyam Computers
- D) none of the above

Answer: D

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: New Question

10) In the U. S., the most prestigious designation for financial planners is

- A) CFP.
- B) CPA.
- C) ING.
- D) SIPC.

Answer: A

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition

11) Briefly describe three different career paths that require a strong background in investments. Answer: Students may discuss any of the following career paths. Answers will vary.

Responsibilities of commercial bankers may include portfolio management, managing short-term securities, and advising individuals as personal bankers.

Corporate financial managers must raise external funds through the debt and equity markets, manage short-term investments, and understand investor expectations for their business.

Financial planners assist individuals in choosing the investments that will help them meet their short and long term goals.

The insurance industry employs professionals to invest and manage the large sums collected from premiums.

Within the investment management industry, professionals may work as securities analysts, fund managers, or retail brokers.

Learning Outcome: F-01 Describe the different financial markets and the role of the financial managers

AACSB: 6 Reflective Thinking Skills

Question Status: Previous Edition