

# TEST BANK FOR

Essentials Of Investments 12th Edition Zvi Bodie, Alex Kane, Alan J. Marcus

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## Chapter 1-22

Answers are at the end of Each Chapter

### Chapter 1

Student name: \_\_\_\_\_

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

- 1) Financial assets represent \_\_\_\_\_ of total assets of U.S. households in 2019.
  - A) about 70%
  - B) over 90%
  - C) under 10%
  - D) about 30%
  
- 2) Real assets in the economy include all but which one of the following?
  - A) Land
  - B) Buildings
  - C) Consumer durables
  - D) Common stock
  
- 3) In 2019, net worth represented \_\_\_\_\_ of the liabilities and net worth of commercial banks.
  - A) about 51%
  - B) about 91%
  - C) about 11%
  - D) about 31%

4) According to the *Flow of Funds Accounts of the United States*, the largest single asset of U.S. households is\_\_\_\_\_.

- A) mutual fund shares
- B) real estate
- C) pension reserves
- D) corporate equity

5) According to the *Flow of Funds Accounts of the United States*, the largest liability of U.S. households is\_\_\_\_\_.

- A) mortgages
- B) consumer credit
- C) bank loans
- D) gambling debts

6) \_\_\_\_\_is *not* a derivative security.

- A) A share of common stock
- B) A call option
- C) A futures contract
- D) A put option

7) According to the *Flow of Funds Accounts of the United States*, the largest financial asset of U.S. households is\_\_\_\_\_.

- A) mutual fund shares
- B) corporate equity
- C) pension reserves
- D) deposits

- 8) Active trading in markets and competition among securities analysts helps ensure that:
1. Security prices approach informational efficiency.
  2. Riskier securities are priced to offer higher potential returns.
  3. Investors are unlikely to be able to consistently find under- or overvalued securities.

- A) 1 only
- B) 1 and 2 only
- C) 2 and 3 only
- D) 1, 2, and 3

- 9) The material wealth of society is determined by the economy's \_\_\_\_\_, which is a function of the economy's \_\_\_\_\_.

- A) investment bankers; financial assets
- B) investment bankers; real assets
- C) productive capacity; financial assets
- D) productive capacity; real assets

- 10) Which of the following is *not* a money market security?

- A) U.S. Treasury bill
- B) 6-month maturity certificate of deposit
- C) common stock
- D) mortgage backed security

- 11) \_\_\_\_\_ assets generate net income to the economy, and \_\_\_\_\_ assets define allocation of income among investors.

- A) Financial; financial
- B) Financial; real
- C) Real; financial
- D) Real; real

12) Which of the following are financial assets?

1. Debt securities
2. Equity securities
3. Derivative securities

- A) 1 only
- B) 1 and 2 only
- C) 2 and 3 only
- D) 1, 2, and 3

13) \_\_\_\_\_are examples of financial intermediaries.

- A) Commercial banks
- B) Insurance companies
- C) Investment companies
- D) All of the choices are correct.

14) *Asset allocation* refers to\_\_\_\_\_.

- A) the allocation of the investment portfolio across broad asset classes
- B) the analysis of the value of securities
- C) the choice of specific assets within each asset class
- D) None of the choices are correct.

15) Which one of the following best describes the purpose of derivatives markets?

- A) Transferring risk from one party to another.
- B) Investing for a short time period to earn a small rate of return.
- C) Investing for retirement
- D) Earning interest income

- 16) *Security selection* refers to the \_\_\_\_\_.
- A) allocation of the investment portfolio across broad asset classes
  - B) analysis of the broad asset classes
  - C) choice of specific securities within each asset class
  - D) top-down method of investing
- 17) Which of the following is an example of an agency problem?
- A) Managers engage in empire building.
  - B) Managers protect their jobs by avoiding risky projects.
  - C) Managers overconsume luxuries such as corporate jets.
  - D) All of the options are examples of agency problems.
- 18) \_\_\_\_\_ is (are) a mechanism for mitigating potential agency problems.
- A) Tying income of managers to success of the firm
  - B) Directors defending top management
  - C) Antitakeover strategies
  - D) All of the choices are correct.
- 19) \_\_\_\_\_ is (are) real assets.
- A) Bonds
  - B) Production equipment
  - C) Stocks
  - D) Life insurance
- 20) \_\_\_\_\_ portfolio construction starts with selecting attractively priced securities.

- A) Bottom-up
- B) Top-down
- C) Upside-down
- D) Side-to-side

21) In a market economy, capital resources are primarily allocated by\_\_\_\_\_.

- A) governments
- B) corporation CEOs
- C) financial markets
- D) investment bankers

22) \_\_\_\_\_represents an ownership share in a corporation.

- A) A call option
- B) Common stock
- C) A fixed-income security
- D) Preferred stock

23) The value of a derivative security\_\_\_\_\_.

- A) depends on the value of another related security
- B) affects the value of a related security
- C) is unrelated to the value of a related security
- D) can be integrated only by calculus professors

24) Commodity and derivative markets allow firms to adjust their\_\_\_\_\_.

- A) management styles
- B) focus from their main line of business to their investment portfolios
- C) ways of doing business so that they'll always have positive returns
- D) exposure to various business risks

25) \_\_\_\_\_ portfolio management calls for holding diversified portfolios without spending effort or resources attempting to improve investment performance through security analysis.

- A) Active
- B) Momentum
- C) Passive
- D) Market-timing

26) Financial markets allow for all but which one of the following?

- A) Shift consumption through time from higher-income periods to lower.
- B) Price securities according to their riskiness.
- C) Channel funds from lenders of funds to borrowers of funds.
- D) Allow most participants to routinely earn high returns with low risk.

27) Financial intermediaries exist because small investors cannot efficiently\_\_\_\_\_.

- A) diversify their portfolios
- B) gather information
- C) assess and monitor the credit risk of borrowers
- D) All of the choices are correct.

28) Methods of encouraging managers to act in shareholders' best interest include:

1. Threat of takeover.
2. Proxy fights for control of the board of directors.
3. Tying managers' compensation to stock price performance.