Fundamentals of Investing, 11e **(Gitman/Joehnk/Smart)**
Chapter 2 Securities Markets and Transactions

2.1 Learning Goal 1

1) Stocks, bonds and mutual fund shares are bought and sold in the capital market.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 1

2) Short-term securities are bought and sold in the
A) capital market.
B) primary market.
C) money market.
D) stock market.
Answer: C
Question Status: Previous Edition
Learning Goal: Learning Goal 1

3) The governmental agency that oversees the capital markets is the
A) Federal Trade Commission.
B) Federal Reserve.
C) Securities and Exchange Commission.
D) Fair Trade and Banking Agency.
Answer: C
Question Status: Previous Edition
Learning Goal: Learning Goal 1

4) Stocks purchased in the secondary market are purchased
A) directly from the issuing corporation.
B) from other investors.
C) from small, little-known brokerages.
D) indirectly through financial institutions.
Answer: B
Question Status: New Question
Learning Goal: Learning Goal 1

5) Stocks and bonds are traded in
A) securities and exchange commissions.
B) money markets.
C) federal trade commissions.
D) capital markets.
Answer: D
Question Status: New Question
Learning Goal: Learning Goal 1

2.2 Learning Goal 2

1) Underwriters are responsible for promoting and facilitating the sale of securities.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 2

2) The preliminary version of a prospectus is called a red herring.
Answer: TRUE
Question Status: Revised
Learning Goal: Learning Goal 2

3) A company must observe a quiet period from the time it files a registration statement with the SEC until at least one month after an IPO is complete.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 2

4) It can be argued that an IPO was overpriced when the IPO produces extraordinarily high rates of return on its first day of trading.
Answer: FALSE
Question Status: Revised
Learning Goal: Learning Goal 2

5) IPOs are relatively safe investments.
Answer: FALSE
Question Status: Previous Edition
Learning Goal: Learning Goal 2

6) Members of a selling group receive compensation in the form of a discount on the selling price of the security.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 2

7) Which one of the following statements concerning the primary market is correct?
A) A transaction in the primary market is between two private stockholders.
B) The first public sale of a company's stock in the primary market is called a seasoned new issue.
C) The first public sale of a company's stock is called an IPO.
D) A rights offering is a direct sale of stock to an institution that participates in the primary market.
Answer: C
Question Status: Revised
Learning Goal: Learning Goal 2

8) A rights offering is the
A) initial offering of securities to the public.
B) offering of new securities to current shareholders on a pro-rata basis.
C) sale of newly issued shares of stock to the general public.
D) sale of securities directly to a select group of investors.
Answer: B
Question Status: Previous Edition
Learning Goal: Learning Goal 2

9) The document that describes the issuer of a security's management and financial position is known as a
A) balance sheet.
B) 10-K report.
C) prospectus.
D) red herring.
Answer: C
Question Status: New Question
Learning Goal: Learning Goal 2

10) Companies offering their stock to the public for the first time usually seek the assistance of
A) investment bankers.
B) the Securities and Exchange Commission.
C) the Federal Reserve Bank.
D) prospectors.
Answer: A
Question Status: New Question
Learning Goal: Learning Goal 2

11) Investment bankers who join together to share the financial risk associated with buying an entire issue of new securities and reselling them to the public is called a(n)
A) selling group.
B) tombstone group.
C) underwriting syndicate.
D) primary market group.
Answer: C
Question Status: Previous Edition
Learning Goal: Learning Goal 2

12) Describe the initial public offering (IPO) process and explain the role of the underwriter, the Securities and Exchange Commission (SEC), and the red herring.
Answer: The underwriter is responsible for promoting the stock and facilitating the sale of the company's IPO shares. The SEC approves the registration statement including the prospectus. This statement includes the key aspects of the issue, the issuer, the company management, and the financial position of the company. The SEC does NOT recommend the investment nor offer an opinion on the value of the stock. The red herring is the preliminary prospectus issued on tentative offerings. The prospectus has red lettering on the front cover.
Question Status: Previous Edition
Learning Goal: Learning Goal 2

13) Explain the role of investment bankers and brokerage firms in the issuance of new securities.
Answer: An investment banker assumes the role of the underwriter and bears the risk of reselling the securities purchased from an issuing corporation. The investment banker earns a profit by reselling at a price higher than the price paid to the issuer. Brokerage firms form a selling group with each firm accepting responsibility for selling a portion of the newly issued securities. The brokerage firms also earn a profit if they can resell the shares at a price higher than their purchase price.
Question Status: Previous Edition
Learning Goal: Learning Goal 2

2.3 Learning Goal 3

1) The NYSE and AMEX are examples of dealer markets.
Answer: FALSE
Question Status: Revised
Learning Goal: Learning Goal 3

2) Only U.S. corporations can list their stocks on the NYSE.
Answer: FALSE
Question Status: Previous Edition
Learning Goal: Learning Goal 3

3) Firms that list their stock on an exchange can be delisted for failing to meet the requirements of the exchange.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 3

4) Options allow their holders to sell or to buy another security during a stated period of time at a specified price.
Answer: TRUE
Question Status: Revised
Learning Goal: Learning Goal 3

5) Exchange traded funds (ETFs) perform like a broad market index but trade are bought and sold like individual stocks.
Answer: TRUE
Question Status: New Question
Learning Goal: Learning Goal 3

6) Most commodity futures are traded on the NYSE Amex.
Answer: FALSE
Question Status: New Question
Learning Goal: Learning Goal 3

7) Securities that trade in the over-the-counter market are called unlisted securities.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 3

8) A market maker brings together buyers and sellers in an auction market.
Answer: FALSE
Question Status: Previous Edition
Learning Goal: Learning Goal 3

9) The income paid to a market maker is referred to as the spread.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 3

10) Federal laws that control the sale of securities are called blue sky laws.
Answer: FALSE
Question Status: Previous Edition
Learning Goal: Learning Goal 3

11) Federal securities laws are designed to protect financial institutions.
Answer: FALSE
Question Status: Previous Edition
Learning Goal: Learning Goal 3

12) The majority of bonds trade in the OTC market.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 3

13) Which of the following are functions of the secondary market?
I. Provide liquidity for current stockholders
II. Equate the demand and supply of securities
III. Provide a market for the dale of new stock by companies that are already public.
IV. Provide continuous pricing of securities
A) I and II only
B) II and IV only
C) I and III only
D) I, II and IV only
Answer: D
Question Status: Revised
Learning Goal: Learning Goal 3

14) Which one of the following statements about the NYSE is correct?
A) Each member of the exchange owns a trading post.
B) Any listed stock may be traded at any of 20 trading posts.
C) Brokerage firms are only permitted to have one individual trading on the floor of the exchange.
D) Buy orders are filled at the lowest price and sell orders are filled at the highest price.
Answer: D
Question Status: Previous Edition
Learning Goal: Learning Goal 3

15) If a security is traded on the New York Stock Exchange and on a regional exchange, the security is said to be
A) dual listed.
B) multiple listed.
C) traded in the second and third markets.
D) geographically diversified.
Answer: A
Question Status: Previous Edition
Learning Goal: Learning Goal 3

16) Which of the following are correct statements concerning the NYSE?
I. Each stock has a designated location, called a post, at which its shares are traded.
II. The NYSE is a dealer market.
III. Supply and demand determines the price of each security.
IV. A specialist buys and sells to maintain a market for a particular security.
A) I and II only
B) I and III only
C) I, III, and IV only
D) I, II, III and IV
Answer: C
Question Status: Previous Edition
Learning Goal: Learning Goal 3

17) A market where securities are are bought from or sold to a market maker is known as a
A) broker market.
B) dealer market.
C) exchange floor.
D) board of exchange.
Answer: B
Question Status: New Question
Learning Goal: Learning Goal 3

18) The NYSE has listing requirements that include a minimum
I. number of outstanding shares.
II. amount of pre-tax earnings.
III. market value of publicly held shares.
IV. number of shareholders owning 100 shares or more.
A) I and IV only
B) I, II and III only
C) II, III and IV only
D) I, II, III and IV
Answer: D
Question Status: Previous Edition
Learning Goal: Learning Goal 3

19) Which of the following are true concerning the NYSE Amex:
I. Many exchange traded funds are listed there.
II. Its listing requirements are stricter than the New York Stock Exchange.
III. It is a major market for exchange traded funds.
IV. It is a broker rather than a dealer exchange.
A) I and II only.
B) I and IV only.
C) I, III, and IV only.
D) I, II, III, and IV.
Answer: C
Question Status: New Question
Learning Goal: Learning Goal 3

20) Exchange traded funds are
A) mutual funds that trade on the Big Board.
B) baskets of securities that trade like a single stock.
C) index funds that trade on the NYSE.
D) groups of securities that trade only on regional exchanges.
Answer: B
Question Status: Previous Edition
Learning Goal: Learning Goal 3

21) The dominant options exchange is the
A) Chicago Board Options Exchange.
B) American Stock Exchange.
C) Pacific Stock Exchange.
D) Philadelphia Options Exchange.
Answer: A
Question Status: Previous Edition
Learning Goal: Learning Goal 3

22) The primary market for futures is the
A) Kansas City Board of Trade.
B) New York Mercantile Exchange.
C) Chicago Board of Trade.
D) Chicago Board Options Exchange.
Answer: C
Question Status: Previous Edition
Learning Goal: Learning Goal 3

23) The automated system for trading highly active OTC securities is the
A) Big Board.
B) Kansas City Board.
C) Chicago Board of Trade.
D) Nasdaq.
Answer: D
Question Status: Previous Edition
Learning Goal: Learning Goal 3

24) The over-the-counter (OTC) market is a
A) centrally located auction market.
B) telecommunications network connecting dealers.
C) market solely for institutional traders.
D) geographically dispersed auction market.
Answer: B
Question Status: Previous Edition
Learning Goal: Learning Goal 3

25) ECNs are
A) publicly-owned auction markets for listed stocks.
B) privately-owned networks that transact trades between institutional investors.
C) facilities used by market makers for trading unlisted securities.
D) part of the third market which trades listed securities between individual investors.
Answer: B
Question Status: Previous Edition
Learning Goal: Learning Goal 3

26) The price an individual investor will pay to purchase a stock in the OTC market is the
A) spread.
B) ask price.
C) bid price.
D) broker price.
Answer: B
Question Status: Previous Edition
Learning Goal: Learning Goal 3

27) Which of the following are associated with bull markets?
I. investor pessimism
II. government stimulus
III. economic recovery
IV. low inflation
A) I and II only
B) II and III only
C) I, II and III only
D) II, III and IV only
Answer: D
Question Status: Previous Edition
Learning Goal: Learning Goal 3

28) Which of the following are associated with bear markets?
I. investor pessimism
II. rising profits
III. economic slowdown
IV. rising security prices
A) I and III only
B) II and III only
C) I, II and III only
D) II, III and IV only
Answer: A
Question Status: New Question
Learning Goal: Learning Goal 3

29) There are many differences between broker markets and dealer markets. These differences include such things as membership, location, regulation, and several other characteristics. Discuss at least five key differences between these two markets.
Answer: BROKER MARKETS–listing requirements, central physical location, members own seats, transactions occur through an auction process, specialists maintain fair and orderly markets, limited securities traded, limited number of securities traded, brokers charge commission to execute trades; largest in terms of dollar volume.
DEALER MARKETS–unlisted securities, most bonds traded here, primary and secondary market, decentralized locations, NASD membership required to trade; dealers make profit from bid/ask spread; largest in terms of number of companies.
Question Status: New Question
Learning Goal: Learning Goal 3

2.4 Learning Goal 4

1) Diversification is the inclusion of a number of different investment vehicles in a portfolio with the goal of increasing returns or reducing risk.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 4

2) The financial markets are becoming more globally integrated.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 4

3) The U.S. stock markets tend to produce the highest rate of return each year.
Answer: FALSE
Question Status: Previous Edition
Learning Goal: Learning Goal 4

4) Including foreign investments in a portfolio
A) decreases the overall diversification of the portfolio.
B) reduces the potential rate of return.
C) provides potential benefits from changes in currency values.
D) limits the diversification amongst industries.
Answer: C
Question Status: Previous Edition
Learning Goal: Learning Goal 4

5) Which one of the following statements about foreign investments is true?
A) In general, major foreign markets always tend to underperform the US market.
B) Investing in foreign markets may involve specific risks not encountered with domestic securities.
C) Investing in foreign markets will always produce higher returns because of exchange rate fluctuations.
D) Foreign markets include equity securities only.
Answer: B
Question Status: Revised
Learning Goal: Learning Goal 4

6) An investment in which of the following represents an direct foreign investment?
I. Global mutual fund
II. U.S. multinational firm
III. ADR
IV. Foreign security
A) II and III only
B) II and IV only
C) III and IV only
D) IV only
Answer: B
Question Status: Previous Edition
Learning Goal: Learning Goal 4

7) Dollar-denominated debt securities issued by foreign corporations and traded in U.S. markets are called
A) ADRs.
B) Yankee bonds.
C) ETFs.
D) Global bonds.
Answer: B
Question Status: Previous Edition
Learning Goal: Learning Goal 4

8) Which of the following can be encountered when investing in foreign markets?
I. Foreign taxation of dividends
II. Different accounting standards for financial disclosure
III. Restrictions on types of investments
IV. Illiquid markets
A) II and III only
B) II and IV only
C) I, II and IV only
D) I, II, III and IV
Answer: D
Question Status: Previous Edition
Learning Goal: Learning Goal 4

9) Assume the foreign exchange rate for the euro was US $1.00 = .70 euro last month. This month, the exchange rate is US $1.00 = .72 euro. This information indicates that over the past month the
A) US dollar remained unchanged relative to the euro.
B) US dollar appreciated relative to all foreign currencies.
C) euro appreciated relative to the dollar.
D) euro depreciated relative to the dollar.
Answer: D
Question Status: Revised
Learning Goal: Learning Goal 4

10) Assume the foreign exchange rate for the euro was US $1.00 = .70 euro last month. This month, the exchange rate is US $1.00 = .72 euro.   All things equal, the dollar value of European stocks
A) decreased.
B) increased.
C) stayed the same.
D) would vary depending on the country.
Answer: A
Question Status: New Question
Learning Goal: Learning Goal 4

11) The effects of fluctuating foreign exchange rates may
I. Increase a U. S. investor's rate of return.
II. Decrease a U. S. investor's rate of return.
III. Can be avoided by investing in ADRs.
IV. Can be avoided by investing in mutual funds that specialize in foreign stocks.
A) I and II only
B) I and III only
C) III and IV only
D) I, II,III, and IV
Answer: A
Question Status: New Question
Learning Goal: Learning Goal 4

12) Kayla invested $3,000 and purchased shares of a German corporation when the exchange rate was $1.00 = .70 euro. After six months, she sold all of the shares for 3,180 euros, when the exchange rate was $1.00 = .68 euro. No dividends were paid during the time Heidi owned the shares of stock. What is the amount of Kayla's gain or loss on this investment?
A) $129.60 gain
B) $1676 gain
C) $1676 loss
D) $250 loss
Answer: B
Question Status: Revised
Learning Goal: Learning Goal 4

2.5   Learning Goal 5

1) After hours markets tend to be less volatile and more liquid than the regular trading sessions.
Answer: FALSE
Question Status: Revised
Learning Goal: Learning Goal 5

2) SEC regulations strictly prohibit trading outside the normal hours of 9:30 A.m. to 4:00 P.M. EST.
Answer: FALSE
Question Status: Previous Edition
Learning Goal: Learning Goal 5

3) The Securities Act of 1933 deals mostly with primary markets.
Answer: TRUE
Question Status: Revised
Learning Goal: Learning Goal 5

4) Insider trading is the use of nonpublic information about a security to gain a profit.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 5

5) The Sarbanes-Oxley Act of 2002 strengthens accounting disclosure requirements and ethical guidelines for financial officers.
Answer: TRUE
Question Status: New Question
Learning Goal: Learning Goal 5

6) Which of the following characteristics apply to trading before and after regular hours?
I. Stock prices can vary from one ECN to another ECN.
II. Most brokerage firms require individual investors to place only market orders for after-hours trades.
III. The NYSE offers after-hours trading at that day's closing prices.
IV. After-hours markets tend to be more volatile and less liquid than the regular trading sessions.
A) II and IV only
B) I, II and III only
C) I and IV only
D) I, III and IV only
Answer: D
Question Status: Previous Edition
Learning Goal: Learning Goal 5

7) The Sarbanes-Oxley Act of 2002 focuses on
A) insider trading.
B) IPOs.
C) accounting and other public disclosures of information.
D) regulation of the OTC markets.
Answer: C
Question Status: Previous Edition
Learning Goal: Learning Goal 5

8) Which of the following are provisions of the Sarbanes-Oxley Act of 2002?
I. An oversight board to monitor the accounting industry.
II. Tougher penalties for executives who commit corporate fraud.
III. Stricter prohibitions against insider trading.
IV. Guidelines for analysts conflicts of interest.
A) II and IV only
B) I, II and III only
C) I and IV only
D) I, II and IV only
Answer: D
Question Status: New Question
Learning Goal: Learning Goal 5

9) The law that requires investment advisers to register with the SEC is the
A) Investment Company Act of 1940.
B) Investment Advisers Act of 1940.
C) Maloney Act of 1938.
D) Securities Act of 1933.
Answer: B
Question Status: Previous Edition
Learning Goal: Learning Goal 5

10) Which of the following practices is prohibited by the Insider Trading and Fraud Act of 1988.
A) the use of nonpublic information to make profitable stock transactions.
B) selling of stock by officers of the company.
C) the granting of stock options to corporate executives in lieu of salaries.
D) private sales of stock between executives of the company.
Answer: A
Question Status: New Question
Learning Goal: Learning Goal 5

11) Crossing markets are those that
A) trade foreign securities.
B) conduct transactions between institutional and individual traders.
C) fill only the orders which have opposing orders at identical prices.
D) conduct business at locations in varying time zones.
Answer: C
Question Status: Previous Edition
Learning Goal: Learning Goal 5

12) The Securities Exchange Act of 1934
A) requires full disclosure of information on all new security issues.
B) authorized the SEC to regulate mutual funds.
C) established trade associations such as the NASD.
D) created the SEC as the regulator of the securities exchanges.
Answer: D
Question Status: Previous Edition
Learning Goal: Learning Goal 5

2.6 Learning Goal 6

1) Margin trading requires the borrowing of securities.
Answer: FALSE
Question Status: Previous Edition
Learning Goal: Learning Goal 6

2) Margin trading will magnify losses on a percentage basis.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 6

3) Short selling requires the borrowing of securities.
Answer: TRUE
Question Status: Previous Edition
Learning Goal: Learning Goal 6

4) Short selling involves the sale of depreciated stock at a price below the amount borrowed on margin.
Answer: FALSE
Question Status: New Question
Learning Goal: Learning Goal 6

5) When a person sells a common stock short, she or he is betting that the price of the stock will fall.
Answer: TRUE
Question Status: New Question
Learning Goal: Learning Goal 6

6) A brokerage firm may set a lower margin requirement than that set by the Federal Reserve Board.
Answer: FALSE
Question Status: Previous Edition
Learning Goal: Learning Goal 6

7) The purchase of stock with cash in the hope of earning a capital gain is known as taking a
A) long position in the stock.
B) short position in the stock.
C) long, margined position in the stock.
D) short, margined position in the stock.
Answer: A
Question Status: Previous Edition
Learning Goal: Learning Goal 6

8) Which one of the following statements about margin trading is correct?
A) The Federal Reserve sets the minimum margin requirement for margin trading.
B) If Fred buys $1,000 worth of stock using 60% margin, he will need to pay $400 in cash to make the purchase.
C) Purchasing stocks on margin is less risky than purchasing stocks by paying cash for the entire purchase.
D) Margin trading increases the potential profits while lowering the potential losses on a percentage basis.
Answer: A
Question Status: Previous Edition
Learning Goal: Learning Goal 6

9) Megan bought 200 shares of stock at a price of $10 a share. She used her 70% margin account to make the purchase. Megan sold her stock after a year for $12 a share. Ignoring margin interest and trading costs, what is Megan's return on investor's equity for this investment?
A) 67%
B) 29%
C) 14%
D) 10%
Answer: B
Question Status: Revised
Learning Goal: Learning Goal 6

10) Joseph bought 100 shares of stock at a price of $24 a share. He used his 70% margin account to make the purchase. Joseph sold his stock after a year for $20 a share. Ignoring margin interest and trading costs, what is Joseph's return on investor's equity for this investment?
A) -17%
B) -24%
C) 24%
D) -56%
Answer: B
Question Status: New Question
Learning Goal: Learning Goal 6

11) Jim purchased 100 shares of stock at a price of $32 a share. He utilized his 80% margin account to make the purchase. What is Jim's initial equity in this investment?
A) -$640
B) $640
C) $2,560
D) $3,200
Answer: C
Question Status: Previous Edition
Learning Goal: Learning Goal 6

12) Lauren purchased 200 shares of stock at $19 using her 70% margin account. Her maintenance margin is 40%. Lauren has no other securities in her account. At what price will Lauren receive a margin call?
A) $13.30
B) $9.50
C) $5.70
D) $3.80
Answer: B
Question Status: Revised
Learning Goal: Learning Goal 6

13) A restricted account is defined as a margin account wherein the equity is
A) less than the initial margin amount.
B) greater than the initial margin amount.
C) less than the maintenance margin amount.
D) greater than the maintenance margin amount.
Answer: A
Question Status: Previous Edition
Learning Goal: Learning Goal 6

14) Emily bought 200 shares of ABC Co. stock for $29.00 per share on 60% margin. Assume she holds the stock for one year and that her interest costs will be $80 over the holding period. Ignoring commissions, what is her percentage return (loss) on invested capital if the stock price went down 10%?
A) -32%
B) -21%
C) -16%
D) -10%
Answer: B
Question Status: Revised
Learning Goal: Learning Goal 6

15) Brandon bought 100 shares of stock for $15.00 per share on 70% margin. Assume Brandon holds the stock for one year and that his interest costs will be $45 over the holding period. Gerry also received dividends amounting to $0.30 per share. Ignoring commissions, what is his percentage return on invested capital if he sells the stock for $34 a share?
A) 60.0%
B) 21.9%
C) 17.6%
D) 13.3%
Answer: B
Question Status: Revised
Learning Goal: Learning Goal 6

16) Justin just made a margin purchase of 100 shares of DEF Corp. for $22.50 per share. The initial margin is 70%. The maintenance margin is 30%. How low can the price of each share of DEF be before Justin will have to add equity to his account?
A) $4.73
B) $5.25
C) $6.75
D) $9.64
Answer: D
Question Status: Revised
Learning Goal: Learning Goal 6

17) Maintenance margin is the
A) minimum amount of loan that can be used for margin trading.
B) initial amount of equity required for a margin purchase.
C) minimum amount of equity that an investor can have to avoid a margin call.
D) amount of additional funds that need to be added to an account to meet minimal equity requirements.
Answer: C
Question Status: Previous Edition
Learning Goal: Learning Goal 6

18) If an investor does not respond to a margin call, the broker will
A) sell enough of the investor's holdings that the margin account can be closed.
B) sell some of the investor's holdings to cover the margin call.
C) notify the Federal Reserve so they can cover the call.
D) sell all of the investor's holdings and close their brokerage account.
Answer: B
Question Status: Previous Edition
Learning Goal: Learning Goal 6

19) Which one of the following is a major advantage of margin trading?
A) increase in potential diversification
B) increase in potential profits on a percentage basis
C) possibility of increased gains on a dollar basis
D) interest free loans
Answer: B
Question Status: New Question
Learning Goal: Learning Goal 6

20) Which of the following are characteristics of short selling?
I. borrowing shares of stock from a brokerage firm or other investors
II. selling shares of stock you do not own
III. betting the stock price will increase
IV. limiting losses per share to the price at which the stock was sold
A) I and II only
B) III and IV only
C) I, II and IV only
D) I, II, III only
Answer: A
Question Status: Previous Edition
Learning Goal: Learning Goal 6

21) Amber sells short 100 shares of MNOP stock at $62.50 per share and six months later purchases the shares at $58.00 each. Ignoring brokerage fees, Nancy will
A) earn a total profit of $112.50.
B) lose a total of $112.50.
C) earn a total profit of $1,112.50.
D) Lose a total of $101.25.
Answer: A
Question Status: Revised
Learning Goal: Learning Goal 6

22) Which of the following statements about short selling is (are) true?
I. Short selling requires an initial margin deposit.
II. Short sellers begin a transaction with a sale and end it with a purchase.
III. Short sellers profit when the stock prices rises.
IV. Short selling can be a risky strategy.
A) IV only
B) I and II only
C) I, II and IV only
D) I, II, III and IV
Answer: C
Question Status: Previous Edition
Learning Goal: Learning Goal 6

23) Last week, Seward Company stock was selling at $66 a share when Ryan sold 300 shares of the stock short. Today Ryan bought 300 shares of the same stock at a price of $70.00 share to cover his position. Ignoring trading costs, what is the dollar return on Sam's investment?
A) $1,200
B) -$400
C) $400
D) $-1,200
Answer: A
Question Status: New Question
Learning Goal: Learning Goal 6

24) Jennifer expects the price of a stock to decrease over the next month. Which one of the following strategies would allow Jennifer to earn a profit if the expected decrease actually occurs?
A) take a long position in the stock today
B) sell the stock short today
C) buy the stock on margin today
D) take a long position in the stock one month from today
Answer: B
Question Status: Previous Edition
Learning Goal: Learning Goal 6