

Exam

Name_____

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

- 1) If an investor does not respond to a margin call, the broker will 1) _____
- A) notify Reserve Bank so they can cover the call.
 - B) sell all of the investor's holdings and close their brokerage account.
 - C) sell some of the investor's holdings to cover the margin call.
 - D) sell enough of the investor's holdings that the margin account can be closed.

Answer: C

Explanation: A)
B)
C)
D)

- 2) A market where securities are are bought from or sold to a market maker is known as a 2) _____
- A) broker market.
 - B) exchange floor.
 - C) dealer market.
 - D) board of exchange.

Answer: C

Explanation: A)
B)
C)
D)

- 3) Which of the following are functions of the secondary market? 3) _____
- I. Provide liquidity for current shareholders.
 - II. Equate the demand and supply of securities.
 - III. Provide a market for the deal of new share by companies that are already public.
 - IV. Provide continuous pricing of securities.
- A) I, II and IV only.
 - B) I and II only.
 - C) I and III only.
 - D) II and IV only.

Answer: A

Explanation: A)
B)
C)
D)

- 4) The price an individual investor will pay to purchase a stock in the OTC market is the 4) _____
- A) broker price.
 - B) bid price.
 - C) spread.
 - D) ask price.

Answer: D

Explanation: A)
B)
C)
D)

5) Which of the following can be encountered when investing in foreign markets?

5) _____

- 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.
- C) II and IV only.

- B) I, II, III and IV.
- D) I, II and IV only.

Answer: B

Explanation: A)
B)
C)
D)

6) Companies offering their stock to the public for the first time usually seek the assistance of

6) _____

- A) Reserve Bank.
- B) Australian Securities and Investments Commission.
- C) investment bankers.
- D) prospectors.

Answer: C

Explanation: A)
B)
C)
D)

7) Including foreign investments in a portfolio

7) _____

- A) reduces the potential rate of return.
- B) limits the diversification amongst industries.
- C) provides potential benefits from changes in currency values.
- D) decreases the overall diversification of the portfolio.

Answer: C

Explanation: A)
B)
C)
D)

8) Jim purchased 100 shares of stock at a price of \$32 a share, assuming a margin loan of 20%. What is Jim's initial equity in this investment?

8) _____

- A) \$640.
- B) \$3,200.
- C) -\$640.
- D) \$2,560.

Answer: D

Explanation: A)
B)
C)
D)

9) Short-term securities are bought and sold in the

- A) capital market.
- C) primary market.

- B) stock market.
- D) money market.

9) _____

Answer: D

Explanation: A)
B)
C)
D)

10) Jennifer expects the price of a share 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 share one month from today.
- B) Buy the share on margin today.
- C) Take a long position in the share today.
- D) Sell the stock share today.

10) _____

Answer: D

Explanation: A)
B)
C)
D)

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

11) _____

Answer: D

Explanation: A)
B)
C)
D)

12) Which one of the following statements concerning the primary market is correct?

- A) The first public sale of a company's stock in the primary market is called a seasoned new issue.
- B) A rights offering is a direct sale of stock to an institution that participates in the primary market.
- C) The first public sale of a company's stock is called an IPO.
- D) A transaction in the primary market is between two private shareholders.

12) _____

Answer: C

Explanation: A)
B)
C)
D)

- 13) The purchase of shares with cash in the hope of earning a capital gain is known as taking a 13) _____
A) long, margined position in the share. B) short, margined position in the share.
C) short position in the share. D) long position in the share.

Answer: D

Explanation: A)
B)
C)
D)

- 14) Which one of the following is a major advantage of margin trading? 14) _____
A) Increase in potential profits on a percentage basis.
B) Increase in potential diversification.
C) Possibility of increased gains on a dollar basis.
D) Interest free loans.

Answer: A

Explanation: A)
B)
C)
D)

- 15) Which one of the following statements about foreign investments is true? 15) _____
A) Investing in foreign markets will always produce higher returns because of exchange rate fluctuations.
B) Foreign markets include equity securities only.
C) In general, major foreign markets always tend to underperform the Australian market.
D) Investing in foreign markets may involve specific risks not encountered with domestic securities.

Answer: D

Explanation: A)
B)
C)
D)

- 16) Megan bought 200 shares of stock at a price of \$10 a share, assuming a margin loan of 30%. Megan 16) _____
sold her shares 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) 10% B) 14% C) 67% D) 29%

Answer: D

Explanation: A)
B)
C)
D)

- 17) Shares and bonds are traded in 17) _____
A) money markets. B) securities and exchange commissions.
C) federal trade commissions. D) capital markets.

Answer: D

Explanation: A)
B)
C)
D)

- 18) Maintenance margin is the 18) _____
- A) initial amount of equity required for a margin purchase.
 - B) minimum amount of loan that can be used for margin trading.
 - 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

Explanation: A)
B)
C)
D)

- 19) Joseph bought 100 shares of stock at a price of \$24 a share, assuming a margin loan of 30%. Joseph sold his shares 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? 19) _____
- A) -24%. B) -17%. C) 24%. D) -56%.

Answer: A

Explanation: A)
B)
C)
D)

- 20) 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) 20) _____
- A) primary market group. B) selling group.
C) tombstone group. D) underwriting syndicate.

Answer: D

Explanation: A)
B)
C)
D)

- 21) An investment in which of the following represents an direct foreign investment? 21) _____
- I. Global managed fund.
II. Australian multinational firm.
III. Super fund.
IV. Foreign security.
- A) II and IV only. B) III and IV only. C) IV only. D) II and III only.

Answer: A

Explanation: A)
B)
C)
D)

22) Which of the following statements about short selling is (are) true?

22) _____

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

Answer: C

Explanation: A)
B)
C)
D)

23) Assume the foreign exchange rate for the euro was A\$1.00 = .70 euro last month. This month, the exchange rate is A\$1.00 = .72 euro. All things equal, the dollar value of European shares

A) increased. B) would vary depending on the country.
C) decreased. D) stayed the same.

23) _____

Answer: C

Explanation: A)
B)
C)
D)

24) A rights offering is the

24) _____

- A) sale of newly issued shares of stock to the general public.
- B) initial offering of securities to the public.
- C) offering of new securities to current shareholders on a pro-rata basis.
- D) sale of securities directly to a select group of investors.

Answer: C

Explanation: A)
B)
C)
D)

25) Which of the following are associated with bull markets?

25) _____

- I. Investor pessimism.
 - II. Government stimulus.
 - III. Economic recovery.
 - IV. Low inflation.
- A) I and II only. B) II and III only.
C) II, III and IV only. D) I, II and III only.

Answer: C

Explanation: A)
B)
C)
D)

26) Which of the following are associated with bear markets?

26) _____

- I. Investor pessimism.
- II. Rising profits.
- III. Economic slowdown.
- IV. Rising security prices.

A) II and III only.

B) II, III and IV only.

C) I, II and III only.

D) I and III only.

Answer: D

Explanation: A)
B)
C)
D)

27) Kayla invested A\$3,000 and purchased shares of a German corporation when the exchange rate was A\$1.00 = .70 euro. After six months, she sold all of the shares for 3,180 euros, when the exchange rate was A\$1.00 = .68 euro. No dividends were paid during the time Kayla owned the shares. What is the amount of Kayla's gain or loss on this investment?

27) _____

A) A\$1676 gain.

B) A\$250 loss.

C) A\$129.60 gain.

D) A\$1676 loss.

Answer: A

Explanation: A)
B)
C)
D)

28) Assume the foreign exchange rate for the euro was A\$1.00 = .70 euro last month. This month, the exchange rate is A\$1.00 = .72 euro. This information indicates that over the past month the

28) _____

A) Australian dollar appreciated relative to all foreign currencies.

B) Australian dollar remained unchanged relative to the euro.

C) euro depreciated relative to the dollar.

D) euro appreciated relative to the dollar.

Answer: C

Explanation: A)
B)
C)
D)

29) Shares purchased in the secondary market are purchased

29) _____

A) directly from the issuing corporation.

B) indirectly through financial institutions.

C) from small, little-known brokerages.

D) from other investors.

Answer: D

Explanation: A)
B)
C)
D)

- 30) The governmental agency that oversees the capital markets is the 30) _____
A) Federal Trade Commission.
B) Australian Securities and Investments Commission.
C) Fair Trade and Banking Agency.
D) Reserve Bank.

Answer: B

Explanation: A)
B)
C)
D)

- 31) Which of the following practices is prohibited by Section 1043A of the Corporations Act 2001? 31) _____
A) The granting of stock options to corporate executives in lieu of salaries.
B) The use of nonpublic information to make profitable securities transactions.
C) Private sales of stock between executives of the company.
D) Selling of stock by officers of the company.

Answer: B

Explanation: A)
B)
C)
D)

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 32) Securities that trade in the over-the-counter market are called unlisted securities. 32) _____

Answer: ☒ True ☐ False

Explanation:

- 33) Options allow their holders to sell or to buy another security during a stated period of time at a specified price. 33) _____

Answer: ☒ True ☐ False

Explanation:

- 34) It can be argued that an IPO was overpriced when the IPO produces extraordinarily high rates of return on its first day of trading. 34) _____

Answer: ☐ True ☒ False

Explanation:

- 35) Short selling requires the borrowing of securities. 35) _____

Answer: ☒ True ☐ False

Explanation:

- 36) Margin trading will magnify losses on a percentage basis. 36) _____

Answer: ☒ True ☐ False

Explanation:

- 37) Underwriters are responsible for promoting and facilitating the sale of securities. 37) _____

Answer: ☒ True ☐ False

Explanation:

- 38) The financial markets are becoming more globally integrated. 38) _____
Answer: ☒ True ☐ False
Explanation:
- 39) Diversification is the inclusion of a number of different investment vehicles in a portfolio with the goal of increasing returns or reducing risk. 39) _____
Answer: ☒ True ☐ False
Explanation:
- 40) Shares, bonds and mutual fund shares are bought and sold in the capital market. 40) _____
Answer: ☒ True ☐ False
Explanation:
- 41) IPOs are relatively safe investments. 41) _____
Answer: ☐ True ☒ False
Explanation:
- 42) When a person sells an ordinary share short, she or he is betting that the price of the share will fall. 42) _____
Answer: ☒ True ☐ False
Explanation:
- 43) A market maker brings together buyers and sellers in an auction market. 43) _____
Answer: ☐ True ☒ False
Explanation:
- 44) Insider trading is the use of nonpublic information about a security to gain a profit. 44) _____
Answer: ☒ True ☐ False
Explanation:
- 45) The ASX and NYSE are examples of dealer markets. 45) _____
Answer: ☐ True ☒ False
Explanation:
- 46) Margin trading requires the borrowing of securities. 46) _____
Answer: ☐ True ☒ False
Explanation:
- 47) Firms that list their stock on an exchange can be delisted for failing to meet the requirements of the exchange. 47) _____
Answer: ☒ True ☐ False
Explanation:

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 48) 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.

Answer Key
Testname: C2

- 1) C
- 2) C
- 3) A
- 4) D
- 5) B
- 6) C
- 7) C
- 8) D
- 9) D
- 10) D
- 11) D
- 12) C
- 13) D
- 14) A
- 15) D
- 16) D
- 17) D
- 18) C
- 19) A
- 20) D
- 21) A
- 22) C
- 23) C
- 24) C
- 25) C
- 26) D
- 27) A
- 28) C
- 29) D
- 30) B
- 31) B
- 32) TRUE
- 33) TRUE
- 34) FALSE
- 35) TRUE
- 36) TRUE
- 37) TRUE
- 38) TRUE
- 39) TRUE
- 40) TRUE
- 41) FALSE
- 42) TRUE
- 43) FALSE
- 44) TRUE
- 45) FALSE
- 46) FALSE
- 47) TRUE

Answer Key

Testname: C2

- 48) 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.