

Fundamentals of Financial Management 14th edition
Brigham Test Bank

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CHAPTER 02—FINANCIAL MARKETS AND INSTITUTIONS

Note that there is an overlap between the T/F and multiple-choice questions, as some of the T/F statements are used in multiple-choice questions.

Multiple Choice: True/False

1. A financial intermediary is a corporation that takes funds from investors and then provides those funds to those who need capital. A bank that takes in demand deposits and then uses that money to make long-term mortgage loans is one example of a financial intermediary.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-1 The Capital Allocation Process

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.01 - The Capital Allocation Process

NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates

TOPICS: Financial intermediaries

KEYWORDS: Bloom's: Knowledge

2. The NYSE is defined as a "spot" market purely and simply because it has a physical location. The NASDAQ, on the other hand, is not a spot market because it has no one central location.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-2 Financial Markets

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.02 - Financial Markets

NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates

TOPICS: Financial markets

KEYWORDS: Bloom's: Knowledge

3. The NYSE is defined as a "primary" market because it is one of the largest and most important stock markets in the world.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-2 Financial Markets

HAS VARIABLES: False

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LEARNING OBJECTIVES: FOFM.BRIG.16.02.02 - Financial Markets

NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates

TOPICS: Financial markets

KEYWORDS: Bloom's: Knowledge

4. Primary markets are large and important, while secondary markets are smaller and less important.

a. True

b. False

ANSWER: False

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-2 Financial Markets

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.02 - Financial Markets

NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

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TOPICS: Financial markets

KEYWORDS: Bloom's: Knowledge

5. Private markets are those like the NYSE, where transactions are handled by members of the organization, while public markets are those like the NASDAQ, where anyone can make transactions.

a. True

b. False

ANSWER: False

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-2 Financial Markets

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.02 - Financial Markets

NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates

TOPICS: Financial markets

KEYWORDS: Bloom's: Knowledge

6. A share of common stock is not a derivative, but an option to buy the stock is a derivative because the value of the option is derived from the value of the stock.

a. True

b. False

ANSWER: True

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-2 Financial Markets

HAS VARIABLES: False

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LEARNING OBJECTIVES: FOFM.BRIG.16.02.02 - Financial Markets

NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

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TOPICS: Financial markets

KEYWORDS: Bloom's: Knowledge

7. Financial institutions are more diversified today than they were in the past, when federal laws kept investment banks, commercial banks, insurance companies, and similar organizations quite separate. Today the larger financial services corporations offer a variety of services, ranging from checking accounts, to insurance, to underwriting securities, to stock brokerage.

a. True

b. False

ANSWER: True

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-3 Financial Institutions

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.03 - Financial Institutions

NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates

TOPICS: Financial institutions

KEYWORDS: Bloom's: Knowledge

8. Hedge funds are somewhat similar to mutual funds. The primary differences are that hedge funds are less highly regulated, have more flexibility regarding what they can buy, and restrict their investors to wealthy, sophisticated individuals and institutions.

a. True

b. False

ANSWER: True

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-3 Financial Institutions

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.03 - Financial Institutions

NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

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TOPICS: Financial institutions

KEYWORDS: Bloom's: Knowledge

9. Trades on the NYSE are generally completed by having a brokerage firm acting as a "dealer" buy securities and adding them to its inventory or selling from its inventory. The NASDAQ, on the other hand, operates as an auction market, where buyers offer to buy, and sellers to sell, and the price is negotiated on the floor of the exchange.

a. True

b. False

ANSWER: False

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POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-4 The Stock Market
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.04 - The Stock Market
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
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TOPICS: Stock market
KEYWORDS: Bloom's: Knowledge

10. The "over-the-counter" market received its name years ago because brokerage firms would hold inventories of stocks and then sell them by literally passing them over the counter to the buyer.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-4 The Stock Market
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.04 - The Stock Market
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
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TOPICS: Stock market
KEYWORDS: Bloom's: Knowledge

11. If you decide to buy 100 shares of Google, you would probably do so by calling your broker and asking him or her to execute the trade for you. This would be defined as a secondary market transaction, not a primary market transaction.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-5 The Market for Common Stock
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.05 - The Market for Common Stock
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
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TOPICS: Stock market transactions
KEYWORDS: Bloom's: Knowledge

12. The term IPO stands for "individual purchase order," as when an individual (as opposed to an institution) places an order to buy a stock.

- a. True
- b. False

ANSWER: False

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POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-5 The Market for Common Stock
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.05 - The Market for Common Stock
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
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TOPICS: Stock market transactions
KEYWORDS: Bloom's: Knowledge

13. In a "Dutch auction" for new stock, individual investors place bids for shares directly. Each potential bidder indicates the price he or she is willing to pay and how many shares he or she will purchase at that price. The highest price that permits the company to sell all the shares it wants to sell is determined, and this is the "market clearing price." All bidders who specified this price or higher are allowed to purchase their shares at the market clearing price.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-5 The Market for Common Stock
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.05 - The Market for Common Stock
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
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TOPICS: Stock market transactions
KEYWORDS: Bloom's: Knowledge

14. When a corporation's shares are owned by a few individuals who are associated with the firm's management, we say that the stock is closely held.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-5 The Market for Common Stock
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.05 - The Market for Common Stock
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates
TOPICS: Closely held stock
KEYWORDS: Bloom's: Knowledge

15. A publicly owned corporation is a company whose shares are held by the investing public, which may include other corporations as well as institutional investors.

- a. True

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b. False

ANSWER: True
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-5 The Market for Common Stock
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.05 - The Market for Common Stock
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates
TOPICS: Public company
KEYWORDS: Bloom's: Knowledge

16. If you wanted to know what rate of return stocks have provided in the past, you could examine data on the Dow Jones Industrial Index, the S&P 500 Index, or the NASDAQ Index.

a. True

b. False

ANSWER: True
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-6 Stock Markets and Returns
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.06 - Stock Markets and Returns
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STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates
TOPICS: Stock market returns
KEYWORDS: Bloom's: Knowledge

17. The annual rate of return on any given stock can be found as the stock's dividend for the year plus the change in the stock's price during the year, divided by its beginning-of-year price.

a. True

b. False

ANSWER: True
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-6 Stock Markets and Returns
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.06 - Stock Markets and Returns
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates
TOPICS: Stock market returns
KEYWORDS: Bloom's: Comprehension

18. The annual rate of return on any given stock can be found as the stock's dividend for the year plus the change in the stock's price during the year, divided by its beginning-of-year price. If you obtain such data on a large portfolio of stocks, like those in the S&P 500, find the rate of return on each stock, and then average those returns, this would give you an

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idea of stock market returns for the year in question.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-6 Stock Markets and Returns
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.06 - Stock Markets and Returns
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
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TOPICS: Stock market returns
KEYWORDS: Bloom's: Comprehension

19. Each stock's rate of return in a given year consists of a dividend yield (which might be zero) plus a capital gains yield (which could be positive, negative, or zero). Such returns are calculated for all the stocks in the S&P 500. A weighted average of those returns, using each stock's total market value, is then calculated, and that average return is often used as an indicator of the "return on the market."

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-6 Stock Markets and Returns
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.06 - Stock Markets and Returns
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates
TOPICS: Stock market returns
KEYWORDS: Bloom's: Comprehension

20. Each stock's rate of return in a given year consists of a dividend yield (which might be zero) plus a capital gains yield (which could be positive, negative, or zero). Such returns are calculated for all the stocks in the S&P 500. A simple average of those returns (which gives equal weight to each company in the S&P 500) is then calculated. That average is called "the return on the S&P Index," and it is often used as an indicator of the "return on the market."

- a. True
- b. False

ANSWER: False
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-6 Stock Markets and Returns
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.06 - Stock Markets and Returns
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TOPICS: Stock market returns
KEYWORDS: Bloom's: Comprehension

Multiple Choice: Conceptual

21. You recently sold 100 shares of Microsoft stock to your brother at a family reunion. At the reunion your brother gave you a check for the stock and you gave your brother the stock certificates. Which of the following best describes this transaction?

- a. This is an example of a direct transfer of capital.
- b. This is an example of a primary market transaction.
- c. This is an example of an exchange of physical assets.
- d. This is an example of a money market transaction.
- e. This is an example of a derivative market transaction.

ANSWER: a
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-1 The Capital Allocation Process
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.01 - The Capital Allocation Process
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates
TOPICS: Capital allocation
KEYWORDS: Bloom's: Comprehension
OTHER: Multiple Choice: Conceptual

22. Which of the following statements is CORRECT?

- a. The NYSE does not exist as a physical location. Rather it represents a loose collection of dealers who trade stock electronically.
- b. An example of a primary market transaction would be your uncle transferring 100 shares of Walmart stock to you as a birthday gift.
- c. Capital market instruments include both long-term debt and common stocks.
- d. If your uncle in New York sold 100 shares of Microsoft through his broker to an investor in Los Angeles, this would be a primary market transaction.
- e. While the two frequently perform similar functions, investment banks generally specialize in lending money, whereas commercial banks generally help companies raise large blocks of capital from investors.

ANSWER: c
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-2 Financial Markets
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.02 - Financial Markets
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates
TOPICS: Financial markets
KEYWORDS: Bloom's: Knowledge

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OTHER: Multiple Choice: Conceptual

23. Which of the following is a primary market transaction?

- a. You sell 200 shares of IBM stock on the NYSE through your broker.
- b. You buy 200 shares of IBM stock from your brother. The trade is not made through a broker; you just give him cash and he gives you the stock.
- c. IBM issues 2,000,000 shares of new stock and sells them to the public through an investment banker.
- d. One financial institution buys 200,000 shares of IBM stock from another institution. An investment banker arranges the transaction.
- e. IBM sells 2,000,000 shares of treasury stock to its employees when they exercise options that were granted in prior years.

ANSWER: c

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-2 Financial Markets

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.02 - Financial Markets

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TOPICS: Financial markets

KEYWORDS: Bloom's: Knowledge

OTHER: Multiple Choice: Conceptual

24. Which of the following is an example of a capital market instrument?

- a. Commercial paper.
- b. Preferred stock.
- c. U.S. Treasury bills.
- d. Banker's acceptances.
- e. Money market mutual funds.

ANSWER: b

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-2 Financial Markets

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.02 - Financial Markets

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TOPICS: Capital market instruments

KEYWORDS: Bloom's: Knowledge

OTHER: Multiple Choice: Conceptual

25. Money markets are markets for

- a. Foreign currencies.
- b. Consumer automobile loans.
- c. Common stocks.

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- d. Long-term bonds.
- e. Short-term debt securities such as Treasury bills and commercial paper.

ANSWER: e
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-2 Financial Markets
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.02 - Financial Markets
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking
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TOPICS: Money markets
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

26. Which of the following statements is CORRECT?

- a. If you purchase 100 shares of Disney stock from your brother-in-law, this is an example of a primary market transaction.
- b. If Disney issues additional shares of common stock through an investment banker, this would be a secondary market transaction.
- c. The NYSE is an example of an over-the-counter market.
- d. Only institutions, and not individuals, can engage in derivative market transactions.
- e. As they are generally defined, money market transactions involve debt securities with maturities of less than one year.

ANSWER: e
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-2 Financial Markets
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.02 - Financial Markets
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TOPICS: Financial market transactions
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

27. You recently sold 200 shares of Disney stock, and the transfer was made through a broker. This is an example of:

- a. A money market transaction.
- b. A primary market transaction.
- c. A secondary market transaction.
- d. A futures market transaction.
- e. An over-the-counter market transaction.

ANSWER: c
POINTS: 1
DIFFICULTY: EASY

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REFERENCES: 2-2 Financial Markets
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.02 - Financial Markets
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TOPICS: Financial market transactions
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

28. Which of the following statements is CORRECT?

- a. Hedge funds are legal in Europe and Asia, but they are not permitted to operate in the United States.
- b. Hedge funds are legal in the United States, but they are not permitted to operate in Europe or Asia.
- c. Hedge funds have more in common with investment banks than with any other type of financial institution.
- d. Hedge funds have more in common with commercial banks than with any other type of financial institution.
- e. Hedge funds are not as highly regulated as most other types of financial institutions. The justification for this light regulation is that only "sophisticated investors" (i.e., those with high net worths and high incomes) are permitted to invest in these funds, and these investors supposedly can do any necessary "due diligence" on their own rather than have it done by the SEC or some other regulator.

ANSWER: e
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-3 Financial Institutions
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.03 - Financial Institutions
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TOPICS: Hedge funds
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

29. Which of the following statements is CORRECT?

- a. While the distinctions are becoming blurred, investment banks generally specialize in lending money, whereas commercial banks generally help companies raise capital from other parties.
- b. The NYSE operates as an auction market, whereas NASDAQ is an example of a dealer market.
- c. Money market mutual funds usually invest their money in a well-diversified portfolio of liquid common stocks.
- d. Money markets are markets for long-term debt and common stocks.
- e. A liquid security is a security whose value is derived from the price of some other "underlying" asset.

ANSWER: b
POINTS: 1
DIFFICULTY: EASY
REFERENCES: 2-4 The Stock Market
HAS VARIABLES: False
LEARNING OBJECTIVES: FOFM.BRIG.16.02.04 - The Stock Market
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

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STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates
TOPICS: Financial markets and institutions
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

30. Which of the following statements is CORRECT?

- a. The New York Stock Exchange is an auction market, and it has a physical location.
- b. Home mortgage loans are traded in the money market.
- c. If an investor sells shares of stock through a broker, then it would be a primary market transaction.
- d. Capital markets deal only with common stocks and other equity securities.
- e. While the distinctions are blurring, investment banks generally specialize in lending money, whereas commercial banks generally help companies raise capital from other parties.

ANSWER: a

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-4 The Stock Market

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.04 - The Stock Market

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TOPICS: Financial markets

KEYWORDS: Bloom's: Knowledge

OTHER: Multiple Choice: Conceptual

31. Which of the following statements is CORRECT?

- a. The term "IPO" stands for Introductory Price Offered, and it is the price at which shares of a new company are offered to the public.
- b. IPO prices are generally established by the market, and buyers of the new stock must pay the price that prevails at the close of trading on the day the stock is offered to the public.
- c. In a "Dutch auction," investors who want to buy shares in an IPO submit bids indicating how many shares they want to buy and the price they are willing to pay. The company determines how many shares it wants to sell. The highest price that enables the company to sell the desired number of shares is the price that all buyers must pay.
- d. It is possible that the price set in an IPO is so high that investors will refuse to buy the number of shares that the company wants to sell. In this situation, the IPO is said to be oversubscribed.
- e. It is possible that the price set in an IPO is so low that investors will want to buy more shares than the company wants to sell. In that case, the company will have to issue more shares than it wants to sell.

ANSWER: c

POINTS: 1

DIFFICULTY: EASY

REFERENCES: 2-5 The Market for Common Stock

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.05 - The Market for Common Stock

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TOPICS: IPOs
KEYWORDS: Bloom's: Knowledge
OTHER: Multiple Choice: Conceptual

32. Which of the following statements is **CORRECT**?

- a. The most important difference between spot markets versus futures markets is the maturity of the instruments that are traded. Spot market transactions involve securities that have maturities of less than one year whereas futures markets transactions involve securities with maturities greater than one year.
- b. Capital market transactions involve only preferred stock or common stock.
- c. If General Electric were to issue new stock this year, this would be considered a secondary market transaction since the company already has stock outstanding.
- d. Both NASDAQ dealers and "specialists" on the NYSE hold inventories of stocks.
- e. Money market transactions do not involve securities denominated in currencies other than the U.S. dollar.

ANSWER: d

POINTS: 1

DIFFICULTY: MODERATE

REFERENCES: 2-4 The Stock Market

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.04 - The Stock Market

NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

STATE STANDARDS: United States - OH - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

TOPICS: Financial markets

KEYWORDS: Bloom's: Knowledge

OTHER: Multiple Choice: Conceptual

33. Which of the following statements is **NOT** CORRECT?

- a. When a corporation's shares are owned by a few individuals, we say that the firm is "closely, or privately, held."
- b. "Going public" establishes a firm's true intrinsic value and ensures that a liquid market will always exist for the firm's shares.
- c. The stock of publicly owned companies must generally be registered with and reported to a regulatory agency such as the SEC.
- d. When stock in a closely held corporation is offered to the public for the first time, the transaction is called "going public, or an IPO," and the market for such stock is called the new issue or IPO market.
- e. It is possible for a firm to go public and yet not raise any additional new capital for the firm itself.

ANSWER: b

POINTS: 1

DIFFICULTY: CHALLENGING

REFERENCES: 2-5 The Market for Common Stock

HAS VARIABLES: False

LEARNING OBJECTIVES: FOFM.BRIG.16.02.05 - The Market for Common Stock

NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.16.06 - Reflective thinking

STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.16.02 - Financial markets and interest rates

TOPICS: Ownership and going public

KEYWORDS: Bloom's: Knowledge

CHAPTER 02—FINANCIAL MARKETS AND INSTITUTIONS

OTHER: Multiple Choice: Conceptual