

# Financial markets and institutions assignment

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CHAPTER 2 FINANCIAL MARKETS AND INSTITUTIONS 1. 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 2. 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 Wal-Mart 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 3.

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. . One financial institution buys 200, 000 shares of IBM stock from <https://assignbuster.com/financial-markets-and-institutions-assignment-essay-samples/>

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

4. 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

5. Money markets are markets for a. Foreign currencies. b. Consumer automobile loans. c.

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

6. 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

7. 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

8. 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. . 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 such 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 9. 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 10.

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 11. 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. . 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 that case, the company is said to have " left money on the table. " 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 12. 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

13. 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

14. You have the following data on three stocks shown below. You decide to use the data on these stocks to form an index, and you want to find the average earned rate of return for 2008 on your index. If you follow the averaging procedure used to calculate the S&P 500 Index return, what would your index’s rate of return be? Hints: Rates of return are based on beginning-of-year prices, and the S Index is weighted by market values of the companies in the index.

Stock	Dividend	Beginning Price	Ending Price	Outstanding (millions)
A	\$1.50	\$30.00	\$32.00	5.00
B	\$2.00	\$28.50	\$27.00	4.50
C	\$0.75	\$20.00	\$24.00	20.00

a. 16.07% b. 16.92% c. 17.76% d. 18.65% e. 19.59% Answer: b

Beginning Ending Outstanding Market

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Stock Dividend Price Price Change (millions) Value Weight  
 A \$1.50 \$30.00 \$32.00 \$2.00 5.00 \$150.00 22.12%  
 B \$2.00 \$28.50 \$27.00 -\$1.50 4.50 \$128.25 18.91%  
 C \$0.75 \$20.00 \$24.00 \$4.00 20.00 \$400.00 58.98%  
 \$678.25 100.00%  
 Div. Cap Gain Total Weighted Stock Yield Yield Return Weight Return  
 A 5.00% 6.67% 11.67% 0.22 120.02 58 B 7.02% -5.26% 1.75% 0.18 910.00 33  
 C 3.75% 20.00% 23.75% 0.58 980.14 01 0.16 92 Index return = 16.92%