|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. The investor should specify the objectives of investing.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. The terms "investing" and “trading” refer to purchasing and selling securities.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. Investments are made in anticipation of a return.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. The anticipated return and the realized return often differ.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. Capital gains are the sole source of the return on an investment.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. Risk is the uncertainty that the realized return may differ from the expected.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. Stocks are initially sold in the “primary” market and subsequently traded in the “secondary” market.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. Liquidity refers to the ease of selling a stock for a capital gain.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. Efficient markets suggests that investors will outperform the market consistently.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. An informed investor can expect to consistently outperform the market.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. Portfolio assessment should include measures of both risk and return.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. Reasons for saving and investing include1. need for funds to meet emergencies2. retirement income3. desire to leave an estate for children

|  |  |  |
| --- | --- | --- |
|   | a.  | 1 and 2 |
|   | b.  | 1 and 3 |
|   | c.  | 2 and 3 |
|   | d.  | all of the above |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. Which of the following is an investment as defined by an economist?

|  |  |  |
| --- | --- | --- |
|   | a.  | equipment |
|   | b.  | land |
|   | c.  | stock |
|   | d.  | savings account |

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. Which of the following is not an investment in the layperson's general use of the term?

|  |  |  |
| --- | --- | --- |
|   | a.  | equipment |
|   | b.  | land |
|   | c.  | stock |
|   | d.  | savings account |

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. Many investments such as stock have common characteristics including1. existence of secondary markets2. risk3. potential for capital gains

|  |  |  |
| --- | --- | --- |
|   | a.  | 1 and 2 |
|   | b.  | 1 and 3 |
|   | c.  | 2 and 3 |
|   | d.  | all of the above |

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. Risk

|  |  |  |
| --- | --- | --- |
|   | a.  | depends solely on price fluctuations |
|   | b.  | should be maximized to increase returns |
|   | c.  | is reduced through specialization |
|   | d.  | refers to the uncertainty of returns |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 17. Financial investments are made in efficient markets. The existence of these markets suggests that

|  |  |  |
| --- | --- | --- |
|   | a.  | investors cannot earn superior returns |
|   | b.  | investors cannot expect to outperform the market consistently |
|   | c.  | securies prices are random |
|   | d.  | bearing additional risk will not increase return |

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. Diversification reduces

|  |  |  |
| --- | --- | --- |
|   | a.  | income |
|   | b.  | capital gains |
|   | c.  | taxes |
|   | d.  | risk |

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. Trading implies

|  |  |  |
| --- | --- | --- |
|   | a.  | frequently buying securities |
|   | b.  | frequently selling securities |
|   | c.  | frequently buying and selling securities |
|   | d.  | investing |

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |