Package Title: Practice

Course Title: Boone, Contemporary Business, Third Canadian Edition

Chapter Number: 16

Shuffle: No

Question type: Multiple Choice

1. The financial system is the process by which \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) firms make money

b) funds are transferred from savers to borrowers

c) securities are sold

d) the Federal Reserve manages monetary policy

Answer: b

Difficulty: Medium

Learning Objective 1: LO16.1 Outline the structure and importance of the financial system.

Section Reference 1: Chapter Overview

Bloom’s Taxonomy: Knowledge

AACSB: Communication

Question type: True/False

1. Net worth is determined by what you own in comparison to what you owe.
2. True
3. False

Answer: True

Difficulty: Easy

Learning Objective 1: LO16.1 Outline the structure and importance of the financial system.

Section Reference 1: Understanding the Financial System

Bloom’s Taxonomy: Knowledge

AACSB: Communication

1. Generally, in Canada, households are net users and businesses are net savers.
2. True
3. False

Answer: False

Difficulty: Easy

Learning Objective 1: LO16.1 Outline the structure and importance of the financial system.

Section Reference 1: Understanding the Financial System

Bloom’s Taxonomy: Comprehension

AACSB: Communication

Question type: Multiple Choice

4) Securities are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) stocks and savings accounts

b) risk-free or speculative ownership stakes in publicly traded corporations

c) obligations on the part of the borrower to provide returns on funds invested or loaned

d) bonds and debentures

Answer: c

Difficulty: Medium

Learning Objective 1: LO16.2 List the various types of securities.

Section Reference 1: Types of Securities

Bloom’s Taxonomy: Comprehension

AACSB: Communication

5) Treasury bills are sold with a maturity of 30, 90, 180, or \_\_\_\_\_ days and have a minimum denomination of $1,000.

a) 45

b) 150

c) 210

d) 360

Answer: d

Difficulty: Easy

Learning Objective 1: LO16.2 List the various types of securities.

Section Reference 1: Types of Securities

Bloom’s Taxonomy: Knowledge

AACSB: Communication

6) Which of the following is **not** a securities category?

a) shares

b) bonds

c) money market instruments

d) all of the above

Answer: d

Difficulty: Medium

Learning Objective 1: LO16.2 List the various types of securities.

Section Reference 1: Types of Securities

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

7) A \_\_\_\_\_\_\_\_ is an unsecured bond backed by the financial reputation of the issuing corporation.

a) general obligation bond

b) debenture

c) pass-through security

d) note

Answer: b

Difficulty: Medium

Learning Objective 1: LO16.2 List the various types of securities.

Section Reference 1: Types of Securities

Bloom’s Taxonomy: Knowledge

AACSB: Communication

8) Subprime mortgages that were packaged into pass-through securities should have been rated

as which of the following?

a) investment grade bonds

b) risk-adjusted bonds

c) callable bonds

d) speculative bonds

Answer: d

Difficulty: Hard

Learning Objective 1: LO16.2 List the various types of securities.

Section Reference 1: Types of Securities

Bloom’s Taxonomy: Synthesis

AACSB: Analytic

9) Virtually all securities are issued by either of the following:

a) individuals and government

b) businesses and individuals

c) businesses and government

d) non-profits and businesses

Answer: c

Difficulty: Medium

Learning Objective 1: LO16.2 List the various types of securities.

Section Reference 1: Types of Securities

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

10) Bondholders are \_\_\_\_\_\_\_\_ of a corporation.

a) creditors

b) customers

c) liabilities

d) assets

Answer: a

Difficulty: Medium

Learning Objective 1: LO16.2 List the various types of securities.

Section Reference 1: Types of Securities

Bloom’s Taxonomy: Knowledge

AACSB: Communication

11) To be labelled as a junk bond, a bond must have a Standard & Poor’s rating at or below \_\_\_\_\_\_\_\_.

a) 3B

b) BB

c) B

d) A

Answer: b

Difficulty: Medium

Learning Objective 1: LO16.2 List the various types of securities.

Section Reference 1: Types of Securities

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

12) Common stockholders \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) usually benefit when a company is growing

b) have the greatest security of any investor

c) have a senior claim to the firm’s assets during bankruptcy

d) are guaranteed dividends based on the firm’s annual profits

Answer: a

Difficulty: Medium

Learning Objective 1: LO16.2 List the various types of securities.

Section Reference 1: Types of Securities

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

13) Municipal bonds are issued by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) local government

b) provincial government

c) federal governments

d) any level of government

Answer: a

Difficulty: Easy

Learning Objective 1: LO16.2 List the various types of securities.

Section Reference 1: Types of Securities

Bloom’s Taxonomy: Comprehension

AACSB: Communication

14) An IPO is a(n) \_\_\_\_\_\_\_\_\_\_.

a) high-yield bond

b) primary market offering

c) independent price occurrence

d) secondary market investment

Answer: b

Difficulty: Medium

Learning Objective 1: LO16.3 Define financial market, and distinguish between primary and secondary financial markets.

Section Reference 1: Financial Markets

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

15) When a company offers stock for the first time \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) the rating is usually speculative

b) securities are offered through commercial banks

c) it is called an initial public offering (IPO)

d) it is entering the secondary market

Answer: c

Difficulty: Medium

Learning Objective 1: LO16.3 Define financial market, and distinguish between primary and secondary financial markets.

Section Reference 1: Financial Markets

Bloom’s Taxonomy: Knowledge

AACSB: Communication

16) What is it called when a company offers a stock for sale to the general public for the first time?

a) primary market

b) initial public offering

c) durability

d) preferred stock

Answer: b

Difficulty: Medium

Learning Objective 1: LO16.3 Define financial market, and distinguish between primary and secondary financial markets.

Section Reference 1: Financial Markets

Bloom’s Taxonomy: Knowledge

AACSB: Communication

17) What is the key difference between NASDAQ and the New York Stock Exchange (NYSE)?

a) NASDAQ is completely electronic; the NYSE still has a trading floor.

b) Tech companies such as Microsoft and Intel are required to trade on NASDAQ.

c) There are more companies listed on the NYSE than on NASDAQ.

d) Corporate bonds make up most of the trading on the NYSE; bonds make up less of the volume on the NASDAQ.

Answer: a

Difficulty: Medium

Learning Objective 1: LO16.4 Describe the characteristics of the major stock exchanges.

Section Reference 1: Understanding Stock Markets

Bloom’s Taxonomy: Comprehension: Analytic

AACSB

18) The NYSE is sometimes referred to as the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) Big Board

b) Ticker Haven

c) District Diamond

d) NASDAQ

Answer: a

Difficulty: Medium

Learning Objective 1: LO16.4 Describe the characteristics of the major stock exchanges.

Section Reference 1: Understanding Stock Markets

Bloom’s Taxonomy: Knowledge

AACSB: Communication

19) What is the world’s largest stock market in terms of the total value of stock traded?

a) London Stock Exchange

b) NASDAQ

c) Hong Kong Stock Exchange

d) New York Stock Exchange

Answer: d

Difficulty: Medium

Learning Objective 1: LO16.4 Describe the characteristics of the major stock exchanges.

Section Reference 1: Understanding Stock Markets

Bloom’s Taxonomy: Knowledge

AACSB: Communication

20) The majority of money in the financial system passes through financial \_\_\_\_\_\_\_.

a) currency and debt systems

b) institutions and markets

c) deposits and loans

d) bonds and certificates

Answer: b

Difficulty: Medium

Learning Objective 1: LO16.5 Discuss how financial institutions are organized and how they function.

Section Reference 1: Financial Institutions

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

21) Securities sold by corporations are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) treasury bills

b) commercial paper

c) certificates of deposit

d) common stock

Answer: b

Difficulty: Medium

Learning Objective 1: LO16.2 List the various types of securities.

Section Reference 1: Types of Securities

Bloom’s Taxonomy: Knowledge

AACSB: Communication

22) How do commercial banks differ from credit unions?

a) Commercial banks serve business and personal customers; credit unions are designed to serve consumers, not businesses.

b) Commercial banks are typically owned by investors; credit unions are controlled by a founding corporation.

c) Commercial banks provide long-term loans; credit unions offer chequing accounts.

d) Deposits at a commercial bank are insured by the FDIC; credit union accounts are uninsured.

Answer: a

Difficulty: Medium

Learning Objective 1: LO16.5 Discuss how financial institutions are organized and how they function.

Section Reference 1: Financial Institutions

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

23) \_\_\_\_\_\_\_\_ are the largest and probably the most important financial institutions in Canada.

a) Credit rating agencies

b) Private banks

c) Credit unions

d) Commercial banks

Answer: d

Difficulty: Medium

Learning Objective 1: LO16.5 Discuss how financial institutions are organized and how they function.

Section Reference 1: Financial Institutions

Bloom’s Taxonomy: Knowledge

AACSB: Communication

Question type: True/False

24) Banks make money primarily because the interest rate they pay depositors is greater than the interest rate they charge borrowers.

1. True
2. False

Answer: False

Difficulty: Medium

Learning Objective 1: LO16.5 Discuss how financial institutions are organized and how they function.

Section Reference 1: Financial Institutions

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

25) Life insurance companies are nondepository financial institutions.

1. True
2. False

Answer: True

Difficulty: Medium

Learning Objective 1: LO16.5 Discuss how financial institutions are organized and how they function.

Section Reference 1: Financial Institutions

Bloom’s Taxonomy: Comprehension

26) CDIC was instituted to avoid runs on banks.

1. True
2. False

Answer: True

Difficulty: Medium

Learning Objective 1: LO16.5 Discuss how financial institutions are organized and how they function.

Section Reference 1: Financial Institutions

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

Question type: Multiple Choice

27) The Bank of Canada manages the money supply by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) allowing the economy to expand and inflation to remain in check

b) reducing lending during a recession

c) increasing the federal deficit

d) controlling the direction of the Prime Minister

Answer: a

Difficulty: Medium

Learning Objective 1: LO16.6 Explain the functions of the Bank of Canada and the tools it uses to carry out these functions.

Section Reference 1: The Role of the Bank of Canada

Bloom’s Taxonomy: Comprehension

AACSB: Communication

Question type: True/False

28) If the Bank of Canada pushes interest rates up, the growth rate in the money supply and inflationary pressures increase.

1. True
2. False

Answer: False

Difficulty: Medium

Learning Objective 1: LO16.6 Explain the functions of the Bank of Canada and the tools it uses to carry out these functions.

Section Reference 1: The Role of the Bank of Canada

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

Question type: Multiple Choice

29) What is the primary responsibility of the Ontario Securities Commission (OSC) or the Manitoba Securities Commission?

a) regulating banks and other financial institutions

b) providing liquidity to the financial market

c) administering securities laws and protecting investors

d) underwriting the issue of new securities

Answer: c

Difficulty: Medium

Learning Objective 1: LO16.7 Describe the regulation of the financial system.

Section Reference 1: Regulation of the Financial System

Bloom’s Taxonomy: Comprehension

AACSB: Communication

30) Marco works in the Treasury department of a major corporation. His boss has asked him to analyze a takeover offer from a competitor. The offer has not yet been made public.

a) Marco should call his stockbroker and sell shares of his company’s stock if the offer looks promising.

b) Marco cannot invest in his own name but he can ask his mother to buy stock on his behalf.

c) Marco is only a lower level employee so he isn’t covered by insider trading laws.

d) Because the information is not yet public, Marco must not act on it.

Answer: d

Difficulty: Hard

Learning Objective 1: LO16.7 Describe the regulation of the financial system.

Section Reference 1: Regulation of the Financial System

Bloom’s Taxonomy: Application

AACSB: Analytic

31) \_\_\_\_\_\_\_\_\_\_\_\_ of the 50 largest worldwide banks (measured by total assets) are Canadian institutions.

a) 4

b) 5

c) 9

d) 13

Answer: a

Difficulty: Medium

Learning Objective 1: LO16.8 Describe the global financial system.

Section Reference 1: The Financial System: A Global Perspective

Bloom’s Taxonomy: Knowledge

Question type: True/False

32) When the Bank of Canada pushes for lower interest rates, central banks in other nations tend to push for higher rates in their systems.

1. True
2. False

Answer: False

Difficulty: Medium

Learning Objective 1: LO16.8 Describe the global financial system.

Section Reference 1: The Financial System: A Global Perspective

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

33) Virtually all nations have a central bank similar to the Bank of Canada.

1. True
2. False

Answer: True

Difficulty: Medium

Learning Objective 1: LO16.8 Describe the global financial system.

Section Reference 1: The Financial System: A Global Perspective

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

34) The lowering of interest rates by the Federal Reserve in the U.S. can have rippling effects on global finances.

1. True
2. False

Answer: True

Difficulty: Easy

Learning Objective 1: LO16.8 Describe the global financial system.

Section Reference 1: The Financial System: A Global Perspective

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

35) Canada’s largest bank is TD Bank.

1. True
2. False

Answer: False

Difficulty: Medium

Learning Objective 1: LO16.8 Describe the global financial system.

Section Reference 1: The Financial System: A Global Perspective

Bloom’s Taxonomy: Knowledge

AACSB: Communication