

Chapter 11 Test, Form A

Financial Markets

DIRECTIONS: Matching Match each item with the correct statement below.

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| _____ 1. an agreement to buy or sell at a specific date in the future at a predetermined price | A. bond |
| _____ 2. stocks that represent ownership shares in corporations | B. capital market |
| _____ 3. the dollars that become available for investors to use when others refrain from consuming | C. equities |
| _____ 4. formal contract to repay borrowed money and interest on the borrowed money at regular future intervals | D. futures contract |
| _____ 5. a market in which all financial assets can be sold to someone other than the original issuer | E. financial system |
| _____ 6. a market in which financial capital is loaned and/or borrowed for at least one year | F. portfolio diversification |
| _____ 7. a situation in which the outcome is not certain, but the probabilities can be estimated | G. primary market |
| _____ 8. a strategy of holding different kinds of investments to minimize risk | H. risk |
| _____ 9. a market in which only the original issuer can sell or repurchase a financial asset | I. savings |
| _____ 10. a network of savers, investors, financial assets, and financial institutions that work together to transfer savings to investment uses | J. secondary market |

DIRECTIONS: Multiple Choice Indicate the answer choice that best completes the statement or answers the question.

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|--|-----------------------------|-----------------------------|
| _____ 11. What kind of fund collects and invests income for later payments to eligible recipients? | A. credit union fund | C. pension fund |
| | B. insurance fund | D. mutual fund |
| _____ 12. Which type of financial organization is a nonprofit service cooperative? | A. commercial bank | C. insurance company |
| | B. mutual fund | D. credit union |

Chapter 11 Test, Form A *cont.*

Financial Markets

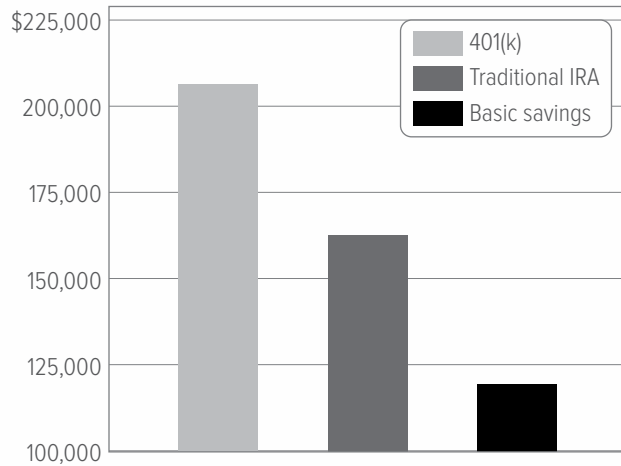
- _____ 13. What is the name of the fee paid for an insurance policy?
- A. premium
 - B. pension
 - C. contribution
 - D. interest
- _____ 14. Which of the following financial organizations specializes in buying installment contracts from merchants who sell on credit?
- A. a credit union
 - B. an insurance company
 - C. a finance company
 - D. a bank
- _____ 15. The rate of return on a corporate, municipal, or government bond is its _____.
- A. par value
 - B. compensation rate
 - C. interest rate
 - D. coupon rate
- _____ 16. Junk bonds usually have low ratings because _____.
- A. they are not risky investments
 - B. they have a low rate of return
 - C. they are a high-risk investment
 - D. they have a low risk of default
- _____ 17. What is the main difference between Treasury bonds, Treasury notes, and Treasury bills?
- A. the amount of time for maturity
 - B. the interest rate
 - C. the minimum purchase requirement
 - D. the method of sale
- _____ 18. What two investments are at opposite ends of the risk spectrum?
- A. Treasury notes and futures
 - B. Savings bonds and Treasury notes
 - C. Equities and futures
 - D. CDs and EE savings bonds
- _____ 19. What is the main advantage of a mutual fund for an investor?
- A. Its price doesn't change much.
 - B. It offers diversity in investment.
 - C. It has a set maturity date.
 - D. It can be sold at a profit.
- _____ 20. Which of the following is an advantage of a 401(k) plan?
- A. Most employers match a portion of your contributions.
 - B. You never pay taxes on your contributions.
 - C. You may withdraw funds at any time without penalty.
 - D. Your contributions are invested in high-return, high-risk funds.

Chapter 11 Test, Form A *cont.*

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DIRECTIONS: Essay Write a short essay in response to each item.

Figure 11.7 How Much Money Will You have at Retirement?



21. The graph shows the results of using three types of investment options. Select one option and discuss its characteristics, advantages, and risks. Give reasons for your choice.

22. Identify the four parts of the financial system and discuss whether you think the system overall is efficient or inefficient. Provide reasons for your position, supported by facts that strengthen your position. For example, does the Great Recession of 2008–2009 strengthen or weaken your view about the efficiency of the financial system?
