

Personal Finance, 6e (Madura)
Chapter 15 Investing in Stocks

15.1 Stock Exchanges

1) The NYSE MKT LLC (formerly called the American Stock Exchange) is the largest of the physical stock exchanges.

Answer: FALSE

Diff: 1

Question Status: Revised

2) Some traders, called specialists, help to make a market in stocks by taking the same position as those who want to buy or sell the stock.

Answer: FALSE

Diff: 2

Question Status: Previous edition

3) Floor traders on the NYSE are willing to trade stocks for others and earn a commission for doing so.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) NASDAQ has less stringent trading requirements than the organized exchanges and tends to attract newer, high-tech companies.

Answer: TRUE

Diff: 1

Question Status: Previous edition

5) People who execute stock trades for others at the NYSE are called

A) day traders.

B) floor traders.

C) stock traders.

D) commission traders.

Answer: B

Diff: 2

Question Status: Revised

6) The stock exchange with the most stringent listing requirements is the

A) NASDAQ.

B) NYSE MKT LLC.

C) NYSE.

D) Securities and Exchange Commission (SEC).

Answer: C

Diff: 1

Question Status: Revised

7) The stock exchange that is the largest in terms of dollar volume is the

- A) NYSE.
- B) NYSE MKT LLC.
- C) NASDAQ.
- D) Securities and Exchange Commission (SEC).

Answer: A

Diff: 1

Question Status: Revised

8) The _____ is/are not a physical location, but rather an electronic communications network to buy and sell stocks.

- A) NYSE
- B) NYSE MKT LLC
- C) NASDAQ
- D) Securities and Exchange Commission (SEC)

Answer: C

Diff: 1

Question Status: Revised

9) Computer systems that match up purchases and sales of stocks even at night when the other exchanges are closed are

- A) the NASDAQ.
- B) the over-the-counter (OTC) markets.
- C) electronic communication networks.
- D) the regional stock exchanges.

Answer: C

Diff: 2

Question Status: Previous edition

10) NASDAQ is a key part of the _____ where dealers conduct stock trades over a computer network.

- A) Intercontinental Exchange
- B) over-the-counter (OTC) market
- C) NYSE MKT LLC
- D) mortgage market

Answer: B

Diff: 2

Question Status: Revised

11) A stock dividend is distributed to the company's

- A) individual creditors.
- B) bank lenders.
- C) suppliers.
- D) stockholders.

Answer: D

Diff: 1

Question Status: Revised

12) On the over-the-counter market trades are executed by

- A) market makers.
- B) day traders.
- C) floor traders.
- D) specialists.

Answer: A

Diff: 2

Question Status: Revised

13) A _____ executes trades to fulfill orders placed by other investors.

- A) day trader
- B) stock trader
- C) floor trader
- D) specialist

Answer: C

Diff: 2

Question Status: Revised

14) A _____ trader helps create a market in one or more stocks by taking an opposite position to the orders placed by clients.

- A) day
- B) stock
- C) floor
- D) specialist

Answer: D

Diff: 2

Question Status: Previous edition

15) The largest stock exchange in the United States is the _____.

Answer: New York Stock Exchange

Diff: 1

Question Status: Previous edition

Use the following two columns of items to answer the matching questions below:

- A) a computerized network for buying and selling stocks
- B) the oldest and most popular organized stock exchange

16) NASDAQ

Diff: 1

Question Status: New

17) NYSE

Diff: 1

Question Status: New

Answers: 16) A 17) B

18) Most newly public companies list their IPO shares on the

- A) NYSE MKT LLC.
- B) NASDAQ.
- C) NYSE.
- D) Over the Counter market.

Answer: B

Diff: 1

Question Status: New

19) Long established, "blue chip" companies list their shares on the

- A) NYSE MKT LLC.
- B) Over the Counter market.
- C) NYSE.
- D) NASDAQ.

Answer: C

Diff: 2

Question Status: New

20) In the U.S., IPO shares are generally listed on the _____ because the listing requirements are _____.

- A) NASDAQ; less stringent
- B) NYSE MKT LLC; less stringent
- C) NYSE; more stringent
- D) Amex; flexible

Answer: A

Diff: 2

Question Status: New

15.2 Stock Quotations

1) The most up-to-date quotes of stock prices may be found in *The Wall Street Journal*.

Answer: FALSE

Diff: 2

Question Status: Previous edition

2) The daily stock quotations found in financial newspapers will **not** tell you the annual dividends paid per share of stock.

Answer: FALSE

Diff: 1

Question Status: Revised

3) The daily stock quotations found in financial newspapers will tell you the closing price per share of stock for the previous day's trading, the range of prices the stock traded at the previous day, and a range of trading prices for the last year.

Answer: TRUE

Diff: 1

Question Status: Revised

4) Which of the following is **not** a good source of current stock quotations?

A) Newspapers, such as *The Wall Street Journal*

B) Magazines that focus on success stories of new businesses

C) Financial news television networks, such as *CNBC*

D) Web sites such as Yahoo Finance or Bloomberg

Answer: B

Diff: 1

Question Status: Revised

Use the table below for the following questions:

52-week HI	52-week LO	Stock (DIV)	YLD%	PE	VOL 100s	CLOSE	NET CHG
11.14	8.22	Acarz 0.1	1%	12	4237	10.00	-.09
20.13	13.78	Bixto	...	15	5609	15.00	0.44
48.78	43.19	Drizel	...	9	8732	45.49	0.20
55.12	49.89	Mavit 0.3	0.6%	23	9122	50	-.37

5) What is the highest price paid for a share of Acarz stock in the last 52 weeks?

A) \$8.22

B) \$11.14

C) \$12.00

D) \$10.00

Answer: B

Diff: 1

Question Status: New

6) If you had 100 shares of Acarz, how much would you expect to receive in dividends annually?

A) \$100

B) \$10

C) \$1,114

D) \$1,000

Answer: A

Diff: 1

Question Status: New

7) Approximately how much did Bixto Company earn per share of common stock during the last year?

A) \$1.00

B) \$15.00

C) \$.44

D) \$7.22

Answer: D

Explanation: D) $\$57.15/9 = \6.35

Diff: 3

Question Status: New

8) How many shares of Drizel were traded the previous day?

- A) 454,900
- B) 487,800
- C) 873,200
- D) 8,732

Answer: C

Diff: 2

Question Status: New

9) What was the closing price per share for Drizel on the day **before** the trading shown on this listing?

- A) \$45.49
- B) \$45.69
- C) \$45.29
- D) \$48.78

Answer: C

Diff: 3

Question Status: New

10) Which of the following stocks performed the best today relative to its closing price on the previous day?

- A) Acarz
- B) Bixto
- C) Drizel
- D) Mavit

Answer: B

Diff: 2

Question Status: New

11) A PE of 10 means that the firm's stock price is ten times the firm's

- A) earnings per share.
- B) book value.
- C) net income.
- D) dividends.

Answer: A

Diff: 1

Question Status: Previous edition

12) A company's earnings are \$3 per share, its dividend is \$2 per share, and its stock price is \$30 per share. Its PE ratio is

- A) 15.
- B) 10.
- C) 1.5.
- D) 33.

Answer: B

Diff: 1

Question Status: Previous edition

13) The yield represents which of the following?

- A) Earnings per share
- B) Dividend payment
- C) Annual return from dividends
- D) Market price

Answer: C

Diff: 1

Question Status: Previous edition

14) Stocks that are subject to more uncertainty tend to have a

- A) wider range in prices over time.
- B) narrower range in prices over time.
- C) higher closing price.
- D) higher annual dividend.

Answer: A

Diff: 1

Question Status: New

15) Some investors use _____ as a simple measure of the firm's risk.

- A) a stock's dividend yield
- B) a stock's trading volume
- C) a stock's price range
- D) a stock's closing price

Answer: C

Diff: 1

Question Status: Revised

16) Companies A and B are both in the same industry and generally compete against each other in the marketplace. Stock A has a P/E ratio of 15 while Stock B's P/E is 21. Which of the following is **not** true about the relative positioning of Stock A and Stock B?

- A) Stock B has lower perceived risk.
- B) Investor's are willing to pay a higher price for shares in Company B.
- C) Company A business performance is probably not as strong as Company B performance.
- D) All of the statements are correct.

Answer: A

Diff: 3

Question Status: New

17) If a stock is near it's 52 week low, that means the stock

- A) is trading at its lowest volume for past year.
- B) has a stock price that is near the lowest for the past year.
- C) is reflecting very low sales for the company that issued the stock.
- D) is a high risk investment.

Answer: B

Diff: 2

Question Status: New

18) Company X pays out 100% of its earnings in the form of annual dividends. Last year, the company paid \$5.25 in dividends for the year. If the stock price is \$105 per share, what is the "trailing" P/E?

- A) 15
- B) 10
- C) 17.5
- D) 20

Answer: D

Diff: 2

Question Status: New

15.3 Purchasing and Selling Stocks

1) A discount brokerage firm executes transactions and provides investment advice at a price less than that of full-service brokers.

Answer: FALSE

Diff: 2

Question Status: Previous edition

2) If you don't need advice or other services offered, you are better off using a discount broker or Internet broker rather than a full-service broker.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) In getting recommendations from brokers and analysts, you need to be careful that frequent suggestions to buy or sell are not being made in order to generate revenues for these traders.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) Online trading of stocks is not only less expensive than using traditional brokers, but is usually more convenient too.

Answer: TRUE

Diff: 1

Question Status: Revised

5) Stocks are usually bought or sold in round lots, which are multiples of \$100.

Answer: FALSE

Diff: 2

Question Status: Previous edition

6) An odd lot is the purchase of less than 100 shares of stock.

Answer: TRUE

Diff: 1

Question Status: Previous edition

7) A market order is normally executed much more quickly than a limit order.

Answer: TRUE

Diff: 1

Question Status: Previous edition

8) Limit orders can only be placed for a short period of time, usually a week or less.

Answer: FALSE

Diff: 2

Question Status: Previous edition

9) A stop order is a special form of limit order; it is an order to execute a transaction when the stock price reaches a specified level.

Answer: TRUE

Diff: 2

Question Status: Previous edition

10) You can currently borrow up to 75% of stock transactions under today's margin rules.

Answer: FALSE

Diff: 1

Question Status: Revised

11) When you buy a stock on margin, your gain is magnified if the stock goes up in value.

Answer: TRUE

Diff: 2

Question Status: Previous edition

12) A margin call is a request from a brokerage firm for the investor to increase the cash in the account in order to bring the margin back up to the minimum level.

Answer: TRUE

Diff: 2

Question Status: Previous edition

13) Unlike discount brokers, full-service brokers

A) give stock advice to their clients.

B) execute stock trades quickly.

C) charge competitive rates.

D) seldom meet with clients.

Answer: A

Diff: 1

Question Status: Revised

- 14) Fees charged by brokerage firms
- A) are set by the NYSE.
 - B) are set by the Federal Reserve.
 - C) are set by the National Association of Securities Dealers.
 - D) vary according to the services offered.

Answer: D

Diff: 1

Question Status: Previous edition

- 15) Some stockbrokers or analysts encourage frequent buying and selling of your securities which may cause you to
- A) increase your profit margin.
 - B) pay less commissions.
 - C) incur additional tax liabilities.
 - D) reduce your risk of loss.

Answer: C

Diff: 1

Question Status: Revised

- 16) If you want recommendations you can
- A) trade with an online broker.
 - B) open an account at a full-service brokerage firm.
 - C) visit the SEC Web site.
 - D) contact a discount broker.

Answer: B

Diff: 2

Question Status: Previous edition

- 17) To start an online brokerage account, you need to do all of the following **except**
- A) follow instructions to set up an account.
 - B) mail or deposit cash in an account.
 - C) go to the Web site.
 - D) deposit a minimum number of shares already owned.

Answer: D

Diff: 1

Question Status: Previous edition

- 18) With an online brokerage firm, you have all of the following **except**
- A) money market fund for uninvested cash.
 - B) a personal sales representative to answer your questions.
 - C) quick and convenient trades.
 - D) very low cost trades.

Answer: B

Diff: 1

Question Status: Previous edition

19) When you place an order to buy or sell stock, you must specify all of the following **except**

- A) the commission you are willing to pay.
- B) whether the order is a market order or a limit order.
- C) the ticker symbol.
- D) whether you are buying or selling.

Answer: A

Diff: 1

Question Status: Revised

20) If you are a day trader you would probably utilize a(n)

- A) discount brokerage firm.
- B) full-service brokerage firm.
- C) online brokerage service.
- D) commercial bank trust department.

Answer: C

Diff: 2

Question Status: Previous edition

21) A _____ symbol is used to identify a stock for trading purposes.

- A) company
- B) ticker
- C) graphic
- D) numeric

Answer: B

Diff: 2

Question Status: Previous edition

22) A round lot of stock is _____ shares.

- A) 10
- B) 100
- C) \$100 worth of
- D) \$1,000 worth of

Answer: B

Diff: 1

Question Status: Previous edition

23) All of the following are odd lots **except**

- A) 99 shares.
- B) 189 shares.
- C) 200 shares.
- D) 970 shares.

Answer: C

Diff: 1

Question Status: Previous edition

24) A _____ order is an order to execute a transaction to buy or sell a stock only if the price is within the range specified.

- A) limit
- B) stock
- C) market
- D) written

Answer: A

Diff: 2

Question Status: Previous edition

25) A _____ order is an order to execute a transaction to buy or sell a stock at its prevailing price.

- A) limit
- B) stock
- C) market
- D) written

Answer: C

Diff: 1

Question Status: Previous edition

26) A _____ is an order for a brokerage firm to sell a stock when the price falls to a specified level.

- A) stop order
- B) buy stop order
- C) sell stop order
- D) go order

Answer: C

Diff: 2

Question Status: Previous edition

27) A _____ is an order for a brokerage firm to buy a stock when the price rises to a specified level.

- A) stop order
- B) buy stop order
- C) sell stop order
- D) go order

Answer: B

Diff: 2

Question Status: Previous edition

28) You bought IBM stock at \$70 per share. It is now \$120 a share. You think it could go higher but you are nervous that it could go down and you would lose your gains. To protect your gains but still give yourself the chance to make future profits you could place a

- A) market order.
- B) sell stop order at \$100 a share.
- C) buy stop order at \$100 a share.
- D) sell stop order at \$150 a share.

Answer: B

Diff: 3

Question Status: Previous edition

29) The Federal Reserve currently limits the margin rate, the amount that can be borrowed from the brokerage firm to

- A) 40%.
- B) 50%.
- C) 60%.
- D) 75%.

Answer: B

Diff: 1

Question Status: Revised

30) You made a \$10,000 stock purchase on margin (50%). You put \$5,000 into your account initially to cover the purchase. Your stock has declined in value to \$7,000 and you receive a margin call. How much cash must you put into your account as a result of the margin call?

- A) \$1,500
- B) \$3,000
- C) \$5,000
- D) None—you already have \$5,000 in your account.

Answer: A

Explanation: A)

$$\$10,000 \times 50\% = \$5,000$$

$$\$7,000 \times 50\% = \underline{\$3,500}$$

$$\$1,500$$

Diff: 2

Question Status: Previous edition

31) A stock that you purchased at a price of \$22 per share has risen to \$46 per share. You wish to avoid losing all of your profit while still allowing an opportunity for additional gains; therefore, you should put in a sell stop order at a price of

- A) \$22 per share.
- B) \$40 per share.
- C) \$47 per share.
- D) \$53 per share.

Answer: B

Explanation: B) The sell stop order should be placed at \$40 per share so if the stock declines in value, it will trigger a sell before all of the gains have been wiped out.

Diff: 1

Question Status: Revised

32) How much cash would you need to purchase 500 shares of stock at \$21 per share plus brokerage commissions of \$125, if you purchase on margin and the margin requirement is 50%?

- A) \$10,625
- B) \$5,312.50
- C) \$10,500
- D) \$5,250

Answer: B

Explanation: B) $(500 \text{ shares} \times \$21) + \$125 = \$10,625 \times 0.5 = \$5,312.50$

Diff: 2

Question Status: Previous edition

33) You purchase 300 shares of stock on margin at a price of \$42 per share plus \$150 in brokerage commissions at a time when the margin requirement is 50%. How much additional cash would you need to deposit with your broker if the price of the stock dropped to \$37 per share?

- A) \$825
- B) \$1,500
- C) \$1,650
- D) \$5,550

Answer: A

Explanation: A)

$(300 \text{ shares} \times \$42) + \$150 = \$12,750 \times 0.5 = \$6,375$

$300 \text{ shares} \times \$37 = \$11,150 \times 0.5 = \underline{\$5,550}$

Additional cash needed \$825

Diff: 2

Question Status: Revised

34) Which of the following is the most risky?

- A) Buying stocks online
- B) Buying on margin
- C) Buying from a broker
- D) Buying a bond

Answer: B

Diff: 1

Question Status: Previous edition

35) If you purchase stock _____ you are doing so with a portion of the funds borrowed from your broker.

Answer: on margin

Diff: 1

Question Status: Previous edition

36) A brokerage firm that executes your transactions without offering investment advice is a(n) _____.

Answer: discount brokerage firm

Diff: 1

Question Status: Previous edition

37) The purchase of 48 shares of stock is considered a(n) _____ transaction.

Answer: odd-lot

Diff: 1

Question Status: Previous edition

38) T is the _____ for American Telephone and Telegraph Company.

Answer: ticker symbol

Diff: 1

Question Status: Previous edition

Use the following two columns of items to answer the matching questions below:

- A) a brokerage firm that provides advice plus transaction services
- B) a brokerage firm that executes transactions without giving advice
- C) purchasing stock with funds borrowed from a brokerage firm
- D) an order to buy or sell at the prevailing market price

39) discount brokerage firm

Diff: 1

Question Status: New

40) market order

Diff: 1

Question Status: New

41) full-service broker

Diff: 1

Question Status: New

42) sell stop order

Diff: 1

E) an order to sell stock when the price falls to a specified level

Question Status: New

43) on margin

Diff: 1

Question Status: New

Answers: 39) B 40) D 41) A 42) E 43) C

44) Compare and contrast a full-service brokerage firm and a discount brokerage firm.

Answer: A full-service brokerage firm offers advice and transaction executions for a price. A discount brokerage firm offers only transaction executions at a substantial discount, between \$8 and \$30 per transaction.

Diff: 2

Question Status: Revised

45) Is investing on margin what the average investor should do?

Answer: Investing on margin is highly risky and should not be done unless the investor can afford to lose the money.

Diff: 1

Question Status: Previous edition

46) All of the following are true about a "stop sell" limit order, **except**

- A) your stock will be sold at the exact price indicated on the stop sell order.
- B) your stock will be sold at the first available trade once the stop sell limit price is reached.
- C) stop sell orders are a good way to reduce downside risk of a stock.
- D) a stop sell limit order can be issued for the trading day or as a good until canceled order.

Answer: A

Diff: 3

Question Status: New

47) One way for an investor to protect themselves when selling a stock short is to

- A) not make the sale on margin.
- B) buy an offsetting amount of the same shares coincident with the short sale to perfectly hedge the transaction.
- C) issue a stop buy limit order at a price somewhere above the short sale price.
- D) An investor cannot protect against large losses in a short sale transaction.

Answer: C

Diff: 2

Question Status: New

15.4 Analyzing Stocks

1) Fiscal policy, the means by which the U.S. government imposes taxes on individuals and corporations and spends its money, has an impact on spending and thus an impact on the stock of some companies.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) Interest rates can affect economic growth and therefore have a direct impact on stock prices.

Answer: FALSE

Diff: 2

Question Status: Previous edition

3) Low interest rates tend to entice investors into the stock market where they can achieve better returns.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) Economic growth, as measured by increases in the gross domestic product (GDP) signals the start of a bull market where stock prices are bound to rise.

Answer: FALSE

Diff: 2

Question Status: Previous edition

5) The two parts of a company's balance sheet: (1) assets and (2) liabilities and shareholder's equity, must be equal or in balance.

Answer: TRUE

Diff: 1

Question Status: Previous edition

6) The income statement for a company is like a budget in that it shows how much money the company would like to have made in a given accounting period.

Answer: FALSE

Diff: 2

Question Status: Previous edition

7) Technical analysis and fundamental analysis are methods commonly used by investors to value stocks.

Answer: TRUE

Diff: 1

Question Status: Previous edition

8) When aggregate demand by consumers _____, firms produce _____ products to accommodate the demand.

A) rises; less

B) rises; more

C) declines; more

D) all of the above.

Answer: B

Diff: 1

Question Status: Revised

9) When economic conditions are weak, the aggregate demand for products and services

A) declines.

B) increases.

C) remains the same.

D) may either decline or increase.

Answer: A

Diff: 1

Question Status: Previous edition

10) Stocks would be most favorably affected by

A) a decline in interest rates and a decline in inflation.

B) an increase in interest rates and a decline in inflation.

C) a decline in interest rates and an increase in inflation.

D) an increase in interest rates and an increase in inflation.

Answer: A

Diff: 1

Question Status: Previous edition

11) The demand for which of the following will decrease the most with a weak economy?

- A) Cereal
- B) Bread
- C) Boats
- D) Paper towels

Answer: C

Diff: 1

Question Status: Previous edition

12) The means by which the U.S. government imposes taxes on individuals and corporations and by which it spends its money is called _____ policy.

- A) taxing
- B) fiscal
- C) financial
- D) spending

Answer: B

Diff: 1

Question Status: Revised

13) When corporate taxes rates are _____, the after-tax earnings of corporations are _____, which means _____ money for shareholders.

- A) increased; decreased; more
- B) decreased; increased; more
- C) increased; increased; more
- D) decreased; decreased; less

Answer: B

Diff: 2

Question Status: Previous edition

14) Which of the following actions of the U.S. government could **not** be considered part of fiscal policy?

- A) Federal Reserve actions to adjust interest rates
- B) Raising the capital gains tax rate
- C) Construction of a new dam
- D) Providing job training for the unemployed

Answer: A

Diff: 2

Question Status: Revised

15) Generally, stocks perform better when interest rates are

- A) low.
- B) high.
- C) average.
- D) Stocks are unaffected by interest rates.

Answer: A

Diff: 1

Question Status: Previous edition

16) One of the most commonly used measures of inflation is the

- A) gross domestic product.
- B) fiscal policy.
- C) consumer price index.
- D) inflation factor.

Answer: C

Diff: 2

Question Status: Previous edition

17) A measure of inflation that represents prices of various products, such as groceries, household products, housing, and gasoline is the _____ index.

- A) consumer price
- B) cost of living
- C) inflationary
- D) household

Answer: A

Diff: 1

Question Status: Previous edition

18) The _____ is a measure of inflation that represents prices of products such as coal, lumber, and metals that are used to produce other products.

- A) CPI
- B) PPI
- C) inflation index
- D) cost of living index

Answer: B

Diff: 2

Question Status: Previous edition

19) The CPI is used as part of the _____ analysis.

- A) economic
- B) industry
- C) firm
- D) government

Answer: A

Diff: 1

Question Status: Revised

20) A company's annual report usually includes all of the following **but**

- A) an auditor's report.
- B) testimonials from employees.
- C) a letter from the CEO.
- D) management discussion and analysis.

Answer: B

Diff: 1

Question Status: Previous edition

21) Assets and liabilities on the balance sheet are classified as

- A) personal and business.
- B) short-term and long-term.
- C) fundamental and discretionary.
- D) secure and insecure.

Answer: B

Diff: 2

Question Status: Previous edition

22) In a corporate income statement, cost of goods sold is subtracted from

- A) revenue.
- B) operating expenses.
- C) earnings before interest and taxes.
- D) taxes.

Answer: A

Diff: 1

Question Status: Revised

23) The valuation of stocks based on an examination of revenues or earnings is called

- A) technical analysis.
- B) fundamental analysis.
- C) fiscal analysis.
- D) financial analysis.

Answer: B

Diff: 1

Question Status: Previous edition

24) If a firm performs strongly over a period of time the impact on its stock price is

- A) positive.
- B) inversely related.
- C) uncertain.
- D) unrelated.

Answer: A

Diff: 1

Question Status: Revised

25) All of the following online publications provide information about inflation **except**

- A) Bloomberg.
- B) Yahoo.
- C) Federal Reserve.
- D) Consumer Reports.

Answer: D

Diff: 1

Question Status: Previous edition

26) The _____ shows the firm's operating results over a period of time.

- A) income statement
- B) statement of cash flows
- C) balance sheet
- D) statement of retained earnings

Answer: A

Diff: 1

Question Status: Previous edition

27) _____ is a measure of economic growth that measures the total value of all products and services produced in the country.

Answer: Gross domestic product

Diff: 1

Question Status: Previous edition

28) The Stimulus Act of 2009, which provided funds to try to stimulate the economy during the financial crisis, is an example of the government's use of _____ to affect economic growth.

Answer: fiscal policy

Diff: 1

Question Status: Revised

29) The _____ is the most common measure of inflation.

Answer: consumer price index

Diff: 1

Question Status: Previous edition

Use the following two columns of items to answer the matching questions below:

- A) statement of a firm's assets, liabilities, and net worth
- B) measures a firm's revenues, expenses, and earnings for a specific time
- C) measure of inflation that represents consumer products
- D) includes financial statements, a letter summarizing the recent performance, and other company information

30) CPI

Diff: 1

Question Status: New

31) income statement

Diff: 1

Question Status: New

32) balance sheet

Diff: 1

Question Status: New

33) annual report

Diff: 1

Question Status: New

Answers: 30) C 31) B 32) A 33) D

34) Where or how can you obtain a corporate annual report and additional investment analysis?

Answer: Most companies post their annual reports on their Web sites. Additional investment analysis for different companies is available on the Web and in reference materials.

Diff: 1

Question Status: Revised

35) In the early 1980's President Reagan and Congress made sweeping changes to the income tax system, lowering both individual and corporate income tax rates significantly. These changes were an example of

- A) monetary policy.
- B) tax policy.
- C) fiscal policy.
- D) both tax and fiscal policy.

Answer: D

Diff: 2

Question Status: New

15.5 How Stock Investment Methods Fit Within Your Financial Plan

1) Before buying a stock, you should estimate its future market value, just as you would the future value of a car or a home.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) Fundamental analysis is based on all of the following **except**

A) the firm's revenue.

B) the firm's earnings.

C) the firm's stock price over the last year.

D) the firm's sensitivity to economic conditions.

Answer: C

Diff: 1

Question Status: Previous edition

3) An increased demand for stock _____ the price.

A) has no effect on

B) increases

C) decreases

D) stabilizes

Answer: B

Diff: 1

Question Status: Previous edition

4) The best time to sell stock is when you

A) need the money.

B) think the stock price has peaked.

C) want to purchase another stock.

D) have achieved 25% return.

Answer: B

Diff: 1

Question Status: Previous edition

5) Which of the following is **not** a reason some investors never purchase stock?

A) They are afraid of the risk.

B) They lack the knowledge.

C) They like safe investments such as CDs.

D) They don't want to make better returns.

Answer: D

Diff: 1

Question Status: Previous edition

6) Do you believe you have enough knowledge to invest in the stock market? Why or why not?
Answer: These chapters are fairly comprehensive and provide a basic investing foundation to help you become an investor; in addition, there are investment courses available. This is a personal decision and either answer will suffice.

Diff: 1

Question Status: Revised

7) From an investing standpoint, stage in life has a lot to do with willingness to bear the risk of various investments. Generally, as an investor moves from wealth accumulation years to wealth preservation years, their portfolio should rotate from a higher risk _____ to a more moderate risk _____ to a lower risk _____.

A) fixed income fund; bank cd; blue chip stock portfolio

B) equity portfolio; balanced portfolio; conservative portfolio

C) commodities portfolio; equity portfolio; mostly equity; some debt portfolio

D) None of the above are satisfactory.

Answer: B

Diff: 2

Question Status: New