Quiz # 5
Dr. Nath

Multiple Choice
Identify the choice that best completes the statement or answers the question.

____ 1. Which of the following is correct?
   a. Lenders sell bonds and borrowers buy them.
   b. Long-term bonds usually pay a lower interest rate than do short-term bonds because long-term bonds are riskier.
   c. The term *junk bonds* refers to bonds that have been resold many times.
   d. None of the above is correct.

____ 2. Two bonds have the same term to maturity. The first was issued by a state government and the probability of default is believed to be low. The other was issued by a corporation and the probability of default is believed to be high. Which of the following is correct?
   a. Because they have the same term to maturity the interest rates should be the same.
   b. Because of the differences in tax treatment and credit risk, the state bond should have the higher interest rate.
   c. Because of the differences in tax treatment and credit risk, the corporate bond should have the higher interest rate.
   d. It is not possible to say if one bond has a higher interest rate than the other.

____ 3. Jerry has the choice of two bonds, one that pays 3 percent interest and one that pays 6 percent interest. Which of the following is most likely?
   a. The 6 percent bond is less risky than the 3 percent bond.
   b. The 6 percent bond is a U.S. government bond, and the 3 percent bond is a junk bond.
   c. The 6 percent bond has a longer term than the 3 percent bond.
   d. The 6 percent bond is a municipal bond, and the 3 percent bond is a U.S. government bond.

____ 4. Institutions that help to match one person's saving with another person's investment are collectively called the
   a. Federal Reserve system.
   b. banking system.
   c. monetary system.
   d. financial system.

____ 5. The fact that borrowers sometimes default on their loans by declaring bankruptcy is directly related to the characteristic of a bond called
   a. credit risk.
   b. interest risk.
   c. term risk.
   d. private risk.

____ 6. The economy’s two most important financial markets are
   a. the investment market and the saving market.
   b. the bond market and the stock market.
   c. banks and the stock market.
   d. financial markets and financial institutions.
7. We associate the term *debt finance* with
   a. the bond market, and we associate the term *equity finance* with the stock market.
   b. the stock market, and we associate the term *equity finance* with the bond market.
   c. financial intermediaries, and we associate the term *equity finance* with financial markets.
   d. financial markets, and we associate the term *equity finance* with financial intermediaries.

8. If Proctor and Gamble sells a bond it is
   a. borrowing directly from the public.
   b. borrowing indirectly from the public.
   c. lending directly to the public.
   d. lending indirectly to the public.

9. Other things the same, bonds are likely to have higher interest rates if they have
   a. tax exemptions and short terms.
   b. tax exemptions and long terms.
   c. no tax exemptions and short terms.
   d. no tax exemptions and long terms.

10. Stock represents
    a. a claim to a share of the profits of a firm.
    b. partial ownership in a firm.
    c. *equity finance*.
    d. All of the above are correct
Quiz # 5
Dr. Nath
Answer Section

MULTIPLE CHOICE

1. ANS: D   PTS: 1   DIF: 2   REF: 26-1
   NAT: Analytic   LOC: The study of economics and definitions in economics
   TOP: Bonds   MSC: Interpretive

2. ANS: C   PTS: 1   DIF: 3   REF: 26-1
   NAT: Analytic   LOC: The study of economics and definitions in economics
   TOP: Bonds | Interest rates   MSC: Applicative

3. ANS: C   PTS: 1   DIF: 2   REF: 26-1
   NAT: Analytic   LOC: The study of economics and definitions in economics
   TOP: Bonds | Risk   MSC: Applicative

4. ANS: D   PTS: 1   DIF: 1   REF: 26-0
   NAT: Analytic   LOC: The study of economics and definitions in economics
   TOP: Financial system   MSC: Definitional

5. ANS: A   PTS: 1   DIF: 1   REF: 26-1
   NAT: Analytic   LOC: The study of economics and definitions in economics
   TOP: Bonds   MSC: Definitional

6. ANS: B   PTS: 1   DIF: 1   REF: 26-1
   NAT: Analytic   LOC: The study of economics and definitions in economics
   TOP: Financial markets   MSC: Interpretive

7. ANS: A   PTS: 1   DIF: 2   REF: 26-1
   NAT: Analytic   LOC: The study of economics and definitions in economics
   TOP: Financial markets | Financial intermediaries   MSC: Interpretive

8. ANS: A   PTS: 1   DIF: 2   REF: 26-1
   NAT: Analytic   LOC: The study of economics and definitions in economics
   TOP: Bonds | Financial markets   MSC: Interpretive

9. ANS: D   PTS: 1   DIF: 1   REF: 26-1
   NAT: Analytic   LOC: The study of economics and definitions in economics
   TOP: Interest on bonds   MSC: Definitional

10. ANS: D   PTS: 1   DIF: 1   REF: 26-1
    NAT: Analytic   LOC: The study of economics and definitions in economics
    TOP: Stock   MSC: Definitional