NOTE:

These review questions are a limited sample of the materials we covered in class. This is by no means a comprehensive coverage of all the topics you might see on the exam. You are still responsible for topics not covered in this review sheet. Refer to the text, homework assignments, and lecture notes for a complete coverage of the topics for exam #3. Use this review sheet only AFTER you have mastered the text, lecture notes, and homework assignments.
Chapter 13 Review Questions

1. What steps should you take before beginning an investment program? Explain each step in details. Be specific.

2. Calculate the amount a person/family needs to establish an emergency fund. How did you calculate this amount?

3. How do most individuals/families fund an investment program? Discuss at least four common approaches.

4. Using the concept of time value of money, explain the “Value of Long-Term Investments Programs” (p.421-422). How does a long-term investment program work? Why do we emphasize the word, “long-term?”

5. Discuss how to evaluate investment alternatives (i.e., stocks, bonds, mutual funds). Use Exhibit 13-3 as part of your discussion.

6. What is a (cash) dividend?

7. Financial planning problems (p.444). #1, 2, 5, 6

8. Financial planning case (p. 446). #1-5.

9. Explain the following risks associated with an investment program.
   - Inflation Risk
   - Interest Rate Risk
   - Business Failure Risk
   - Market Risk
   - Global Investment Risk
CHAPTER 13 QUIZ

TRUE-FALSE
_____ 1. Long-term objectives are defined as objectives that can be accomplished within one year.
_____ 2. An emergency fund is a certain amount of money that can be obtained quickly in case of immediate needs.
_____ 3. A line of credit is a long-term loan that is approved before the money is actually needed.
_____ 4. There is no relationship between safety and risk when choosing an investment.
_____ 5. A speculative investment is usually defined as one that is made in the hope of earning a relatively large profit in a short time.

MULTIPLE CHOICE
_____ 6. Corporate bonds
a. are tax exempt from federal taxation.
b. must be repaid at maturity.
c. pay dividends on a quarterly basis.
d. are debt obligations, and, therefore, risk free.
_____ 7. Which of the following investments would have the greatest potential for safety?
a. Government bonds
b. Stocks
c. Corporate bonds
d. Mutual funds
_____ 8. Which of the following investments would have the greatest potential for risk?
a. Preferred stock
b. Corporate bonds
c. Common stocks
d. Bank accounts
_____ 9. Which of the following statements is false?
a. Asset allocation is the process of spreading your assets among several different types of investments.
b. Asset allocation eliminates the risk associated with an investment program.
c. The time your investments can work for you is a major factor to consider when choosing investment alternatives.
d. Your age is a factor that should be considered when establishing an investment program.
_____ 10. Which source of investment information provides the most current data?
a. Newspapers
b. Corporate reports
c. Business periodicals
d. Moody’s Investment Reports
Chapter 14 Review Questions

1. Why do investors purchase common stocks? Describe at least three reasons.

2. Be able to work out a problem like “Sample Stock Transaction for GM” (p. 456). Understand how transactions costs (i.e., commissions) affect investment returns.

3. What is a 2-for-1 stock split? Give an appropriate example of such split. Why do corporations decide to split their stock? Is a stock split good or bad for investors?

4. What is a preferred stock? Compare and contrast a preferred stock and a common stock? Be specific. Hint: Examine the features of each type of stock.

5. Define and discuss classification of stock investments (p. 460).

6. Know how to read the financial section of the Newspaper (Exhibit 14-4 on p. 461)

7. Explain (1) fundamental analysis (2) technical analysis (3) efficient market theory.

8. Discuss (1) Buy-and-hold technique and (2) Dollar cost averaging. Show how each investment method works. Why are they important in personal financial planning?

CHAPTER 14 QUIZ

TRUE-FALSE

_____ 1. Corporations sell common stock to finance their business start-up costs and help pay for their ongoing business activities.

_____ 2. A corporation must pay dividends to stockholders.

_____ 3. __________________________________________________________________________

_____ 4. __________________________________________________________________________

_____ 5. The book value for a share of stock is determined by deducting all liabilities from the corporation’s assets and dividing the remainder by the number of outstanding shares of common stock.

MULTIPLE CHOICE

_____ 6. A corporation whose stock is owned by relatively few people and is not traded openly in stock markets is called a ____________ corporation.

a. public
b. private
c. called
d. converted

_____ 7. A stock split

a. always guarantees that the investor will make money.
b. enables management to bring a stock’s price into an “ideal” price range.
c. is always used to lower the stock’s market price.
d. doesn’t affect the value of a share of the corporation’s stock.

_____ 8. A feature that enables preferred stock investors to receive omitted dividends is called a ____________ feature.

a. cumulative
b. participation
c. conversion
d. callable

_____ 9. A stock that follows the business cycle of advances and declines in the economy is called a(n) ____________ stock.

a. blue-chip
b. income
c. growth
d. cyclical

_____ 10. When stocks are traded between investors, they are traded in the ____________ market.

a. investment banking
b. primary
c. secondary
d. efficient.
Chapter 15 Review Questions

1. Graphically show how a 10-year corporate bond (worth $10,000,000) issued by General Electric that pays 7.5% interest work. Be sure to discuss corporate bond, face/par value, coupon payments, maturity date, and a sinking fund provision in your answer.

2. What is a zero-coupon bond? How does it differ from the above GE bond?

3. Define and discuss the following types of bonds:
   a. Debenture bond
   b. Mortgage bond
   c. Subordinated bond
   d. Convertible bond
   e. Callable bond

4. Compare and contrast (1) Treasury Bills (2) Treasury Notes (3) Treasury Bonds.

5. What is a municipal bond? Why is it an important investment tool for high net worth individuals? Hint: Taxation; taxable equivalent yield (see p. 507)

6. Discuss why federal, state, and local governments issue bonds and why investors purchase government.

7. Discuss Exhibit 15-6. Identify and explain the following terms:
   a. AAA-rated bond
   b. Investment grade bond
   c. Junk bond
   d. Risk and return characteristics of these bonds
CHAPTER 15 QUIZ

TRUE-FALSE

_____ 1. A bond debenture is a legal document that details all of the conditions relating to a bond issue.

_____ 2. Corporations sell corporate bonds to help finance their ongoing business activities.

_____ 3. A mortgage bond is sometimes referred to as a secured bond.

_____ 4. A sinking fund is a fund to which deposits are made each year for the purpose of redeeming a bond issue.

_____ 5. A revenue bond is a bond backed by the full faith, credit, and unlimited taxing power of the government that issued it.

MULTIPLE CHOICE

_____ 6. A government security issued in minimum units of $1,000 with maturities that may be as long as one year is called a
a. treasury bill.
   b. treasury note.
   c. treasury bond.
   d. municipal bond.

_____ 7. A bond that may provide tax-free interest income is called a
a. corporate debenture bond.
   b. corporate indenture bond.
   c. Federal T-bill.
   d. municipal bond.

_____ 8. The current yield for a bond is determined by dividing annual income amount by a bond’s current market price.
   a. is stated on the bond certificate.
   b. is determined by dividing annual income amount by a bond’s current market price.
   c. is not a factor when evaluating a bond investment.
   d. takes into account the relationship among a bond’s maturity value, the time to maturity, the current price, and the dollar amount of interest.

_____ 9. Which of the following statements is true?
   a. All bonds must be resold in the primary market.
   b. Bonds may be purchased in either the primary or secondary market.
   c. Bonds cannot be resold, and must be held until maturity.
   d. Generally, commissions to purchase a $1,000 bond are between $50 and $75.

_____ 10. A bond that is sold at a price far below its face, makes no interest payments, and is redeemed for its face value at maturity is called a ____________ bond.
   a. registered
   b. coupon
   c. indenture
   d. zero-coupon
Chapter 16 Review Questions

1. Compare and contrast (1) Open-end fund (2) closed-end fund (3) ETFs (4) index fund.

2. What are two major reasons why investors purchase mutual funds?

3. What are the typical sales fees charged for a load and no-load mutual fund?

4. What is an investment company? Give three examples.

5. Discuss net asset value (NAV). Know how NAVs are calculated given a fund’s operating information.

6. What is a mutual fund load? (i.e., back-end load)

7. What is a 12b-1 fee?

8. Discuss in details the advantages and disadvantages of investing in mutual funds (p. 543)

9. Describe different types of mutual funds (i.e., stock funds, large-cap fund, growth fund, sector fund)

10. Compare and contrast managed funds and indexed funds.
CHAPTER 16 QUIZ

TRUE-FALSE

_____ 1. The major reasons why investors purchase mutual funds are professional management and diversification.

_____ 2. Shares in a closed-end mutual fund are issued by the investment company only when the fund is organized.

_____ 3. Typically, the management fee for a mutual fund ranges between 3 and 5 percent of the total dollar amount invested.

_____ 4. A family of funds exists when one investment company manages a group of mutual funds.

_____ 5. Generally, there are a number of purchase options and withdrawal options for investors that purchase mutual funds.

MULTIPLE CHOICE

_____ 6. A mutual fund in which new shares are issued and redeemed by the investment company at the request of investors is called a(n) ____________ fund.
   a. closed end
   b. open-end
   c. load
   d. no-load

_____ 7. Some mutual funds charge 12b-1 fees to defray the cost of
   a. management of the fund.
   b. selling securities in the fund’s portfolio.
   c. withdrawal options of the mutual fund.
   d. marketing and distribution of the mutual fund.

_____ 8. An investor who wants a tax-free investment would choose a(n) ____________ fund.
   a. balanced
   b. income
   c. sector
   d. municipal bond

_____ 9. A document that prospective mutual fund investors receive is called a(n)
   a. SEC report.
   b. load fund report.
   c. index fund report.
   d. prospectus.

_____ 10. Payments made to a fund’s shareholders that result from the sales of securities in the fund’s portfolio are called
   a. income dividends.
   b. capital gain distributions.
   c. tax-free income.
   d. none of the above.