

Student: \_\_\_\_\_

1. The exchange of goods and services is made more efficient by:
  - A. barter.
  - B. money.
  - C. governments.
  - D. some combination of government transfer and barter.
2. Short selling is:
  - A. the sale of a financial product at a discount to its current market value.
  - B. the sale of a financial product in small quantities.
  - C. the sale of a financial product that the seller does not own.
  - D. the sale of a financial product where the seller agrees to buy it back at a predetermined price.
3. The term 'medium of exchange' for money refers to its use as:
  - A. coinage.
  - B. currency.
  - C. something that is widely accepted as payment for goods and services.
  - D. any standard of value that prices can be expressed in.
4. The role of money as a store of value refers to:
  - A. the value of money falling only when the money supply falls.
  - B. the value of money falling only when the money supply increases.
  - C. the fact that money allows worth to be stored readily.
  - D. the fact that money never loses its value compared with other assets.
5. Money increases economic growth by assisting transfers from:
  - A. consumers to investors.
  - B. savers to borrowers.
  - C. businesses to consumers.
  - D. borrowers to investors.
6. Financial markets have developed to facilitate the exchange of money between savers and borrowers. Which of the following is NOT a function of money?
  - A. A store of value
  - B. A medium of exchange for settling economic transactions
  - C. A claim to future cash flows
  - D. Short-term protection against inflation
7. Buyers of financial claims lend their excess funds because they:
  - A. expect to borrow extra funds in the future.
  - B. want surplus funds in the future.
  - C. want to invest in the future.
  - D. want to increase their costs relative to their incomes.
8. Sellers of financial claims promise to pay back borrowed funds:
  - A. by borrowing extra funds in the future.
  - B. based on their expectation of having surplus funds in the future.
  - C. by selling other assets.
  - D. by reducing their costs relative to their incomes.

9. A savings-surplus unit is an entity:
- A. that needs to borrow funds from a surplus unit.
  - B. which has an income that exceeds its spending.
  - C. whose spending exceeds its income.
  - D. called a company.
10. The process of facilitating the flow of funds between borrowers and lenders performed by the financial system:
- A. is hindered by the problem of 'double coincidence of wants'.
  - B. greatly reduces the probability of inflation.
  - C. increases the rate of economic growth of a country.
  - D. occurs only through financial intermediaries.
11. Both real and financial assets have four principal attributes that are significant factors in the investment decision process. These are:
- I. liquidity
  - II. capital gain
  - III. risk
  - IV. return or yield
  - V. time pattern of future cash flows
  - VI. price and cash flow volatility
- A. I, II, III, IV
  - B. I, III, IV, V
  - C. I, III, IV, VI
  - D. II, III, IV, V
12. Which of the following is NOT associated with characteristics of shares?
- A. Part ownership of a company
  - B. Capital gains
  - C. A fixed interest payment
  - D. Dividends
13. A financial institution that obtains most of its funds from deposits is a/an:
- A. investment bank.
  - B. unit trust.
  - C. commercial bank.
  - D. general insurer.
14. Institutions that specialise in off-balance-sheet advisory services are called:
- A. depository financial institutions.
  - B. contractual institutions.
  - C. finance companies.
  - D. investment banks.
15. A financial intermediary that receives premium payments which are used to purchase assets to cover future possible payments is a:
- A. building society.
  - B. credit union.
  - C. savings bank.
  - D. life insurance office.
16. Financial institutions whose liabilities specify that, in return for the payment of periodic funds to the institution, the institution will make payments in the future (if and when a specified event occurs) are:
- A. money market corporations.
  - B. unit trusts.
  - C. contractual savings institutions.
  - D. depository financial institutions.

17. Financial institutions that raise the majority of their funds by selling securities in the money markets are:
- A. commercial banks.
  - B. building societies.
  - C. finance companies.
  - D. life insurance offices.
18. Financial institutions that are formed under a trust deed and attract funds by inviting the public to buy units are:
- A. finance companies
  - B. building societies.
  - C. unit trusts.
  - D. life insurance offices.
19. Which of the following is NOT a term associated with shares?
- A. Residual
  - B. Ownership
  - C. Voting rights
  - D. Contractual claim
20. Which of the following is NOT a characteristic commonly associated with preference shares?
- A. A specified, fixed return
  - B. No voting rights
  - C. Higher ranking than bond holders on claims on assets
  - D. No entitlement to take possession of assets if the borrower defaults on payment
21. Long-term debt financing instruments used by companies are called:
- A. bills.
  - B. debentures.
  - C. shares.
  - D. equities.
22. When a borrower issues a debt instrument with collateral specified in its contract this debt instrument is called:
- A. unsecured.
  - B. secured.
  - C. defined.
  - D. negotiable.
23. Debt instruments that can be easily sold and transferred in the financial markets are called:
- A. negotiable.
  - B. secured.
  - C. unsecured.
  - D. discounted.
24. Which of the following is NOT a feature of a debt instrument?
- A. A contractual claim against the borrower
  - B. Periodic interest payments
  - C. Higher claim on assets of borrower than equity holders
  - D. Their prices do not fluctuate as much as shares
25. Which of the following is NOT a feature of futures contracts?
- A. Futures contracts involve an obligation to buy or sell a specified amount
  - B. Trading of contracts occurs on an exchange
  - C. The contract price is settled at the end of the contract
  - D. Trading an opposite contract usually closes out the contract

26. Which of the following is NOT a feature of forward contracts?
- A. Forward contracts are not standardised
  - B. Forward contracts do not trade on organised exchanges
  - C. The contract price may be settled at the end of the contract
  - D. Forward contracts are closed out by trading an opposite contract
27. Which of the following is NOT a feature of option contracts?
- A. The buyer does not have an obligation to proceed with the contract
  - B. The writer of the contract receives a fee
  - C. The price of the designated asset is determined at the beginning of the contract
  - D. The right to buy is called a put option
28. Which of the following is NOT a feature of swaps?
- A. There is a contractual arrangement to exchange cash flows
  - B. Interest rate swaps exchange principal at the beginning and the end
  - C. A fixed rate obligation may be exchanged for a variable rate obligation
  - D. A swap can involve interest payments and currencies
29. The key reason for the existence of markets of financial assets is:
- A. that holders of shares generally want to exchange them for bonds and other financial instruments.
  - B. the high expenditure for many individuals and businesses.
  - C. that the lack of money in an economy makes trade in financial assets necessary.
  - D. the refusal of most modern governments to print money on demand.
30. Financial markets:
- A. facilitate the exchange of financial assets.
  - B. provide information about prices of financial assets.
  - C. provide a channel for funds to flow between the providers and users of funds.
  - D. all of the given choices.
31. The most important function of a financial market is to:
- A. provide information about shares.
  - B. provide a market for shares.
  - C. facilitate the flow of funds between lenders and borrowers.
  - D. provide employment for brokers and agents.
32. Financial markets:
- A. act as intermediaries by holding a collection of assets and issuing claims based on them to savers.
  - B. issue claims on future cash flows of individual borrowers directly to lenders.
  - C. transmit funds indirectly between lenders and borrowers.
  - D. usually provide lenders with lower returns than other financial intermediaries.
33. A primary financial market is one that:
- A. offers financial assets with the highest expected return.
  - B. offers the greatest number of financial assets.
  - C. involves the sale of financial assets for the first time.
  - D. offers financial assets with the highest historical return.
34. A secondary financial market is one that:
- A. offers financial assets with the highest expected return.
  - B. offers the greatest number of financial assets.
  - C. involves the sale of existing financial assets.
  - D. offers financial assets with the highest historical return.
35. Purchasing shares on the Australian Securities Exchange is an example of:
- A. a primary market transaction.
  - B. companies raising finance from another financial intermediary.
  - C. companies raising new finance.
  - D. a secondary market transaction.

36. When a security is sold in the financial markets for the first time:
- A. funds flow from the saver to the issuer.
  - B. funds flow from the borrower to the saver.
  - C. it represents a secondary transaction to the underwriter.
  - D. it is an asset for the borrower.
37. Which of the following is NOT an example of primary market transactions?
- A. A company issue of shares to raise funds for an investment project
  - B. A government issue of bonds
  - C. A mortgage bond
  - D. A mortgage loan to buy a house
38. A 'primary market' is a market:
- A. only for equity issues by major or 'primary' companies.
  - B. where borrowers sell new financial instruments to buyers.
  - C. where savers sell new financial claims to borrowers.
  - D. where government securities are bought and sold.
39. Buying bonds in the capital markets is an example of:
- A. a secondary market transaction.
  - B. a primary market transaction.
  - C. companies raising new funds.
  - D. companies raising funds from a secondary source.
40. The market where existing securities are sold is the:
- A. economic market.
  - B. primary market.
  - C. secondary market.
  - D. financial market.
41. When a large company issues a financial instrument into the financial markets:
- A. funds flow indirectly from saver to borrower.
  - B. the cost of funds is generally higher owing to the risk involved.
  - C. it buys a financial claim.
  - D. it sells a financial claim.
42. Secondary markets:
- A. allow borrowers to raise long-term funds.
  - B. facilitate capital-raising in the primary market.
  - C. do not raise new funds but offer liquidity.
  - D. all of the given answers.
43. The flow of funds through financial markets increases the volume of savings and investment by:
- A. maintaining low interest rates.
  - B. storing large quantities of cash.
  - C. providing savers with a variety of ways to lend to borrowers.
  - D. offering lower interest rates than could be obtained directly from borrowers.
44. Which of the following statements is NOT a feature of financial markets?
- A. Financial markets generally provide borrowers with lower cost funds than through a financial intermediary.
  - B. Funds are channelled directly from savers to borrowers.
  - C. Contractual agreements are issued between savers and borrowers.
  - D. Financial markets generally deal only with the purchase and sale of government securities.

45. Which of the following is NOT true—a well-functioning financial market:
- A. has a steadily increasing liquidity for most assets.
  - B. offers increased ease of restructuring portfolios of assets.
  - C. has a quick assimilation of information into asset prices.
  - D. has a selection of financial assets with similar timings of cash flow.
46. Financial markets:
- A. act as intermediaries between borrowers and savers.
  - B. directly issue claims on savers to borrowers.
  - C. involve the buying and selling of existing financial securities only.
  - D. involve both primary and secondary transactions.
47. Direct financing allows a borrower to:
- A. easily assess a lender's level of default risk.
  - B. match amounts and maturity of investments with borrowers.
  - C. lower search and transaction costs.
  - D. diversify their funding sources.
48. Which of the following is NOT a possible disadvantage of direct financing?
- A. Matching amounts of funds to be borrowed with those to be lent
  - B. Assessment of the risk of the borrower
  - C. Cost of preparing legal contracts, taxation and accounting advice
  - D. Cost of the financial intermediary involved
49. An issue of debentures is an example of:
- A. a secondary market transaction.
  - B. fundraising through financial intermediaries.
  - C. a direct form of funding.
  - D. an indirect form of funding.
50. An example of an indirect form of funding is a/an:
- A. issue of debentures.
  - B. issue of unsecured notes.
  - C. term loan.
  - D. issue of shares.
51. Which of the following is NOT a major advantage of direct finance?
- A. Direct finance reduces financial institution' fees.
  - B. Direct finance allows borrowers to diversify sources of funds.
  - C. Direct finance allows greater flexibility in funding types.
  - D. Direct finance reduces search and transactions costs.
52. Financial intermediaries:
- A. act as a third party by holding a portfolio of assets and issuing claims based on them to savers.
  - B. issue claims on future cash flows of individual borrowers directly to lenders.
  - C. transmit funds directly between lenders and borrowers.
  - D. usually provide lenders with lower returns than other financial institutions.
53. The flow of funds between lenders and borrowers is channelled:
- A. indirectly through financial markets.
  - B. directly through financial intermediaries.
  - C. indirectly through financial intermediaries.
  - D. mainly through government agencies.

54. 'Intermediaries, by managing the deposits they receive, are able to make long-term loans while satisfying savers' preferences for liquid claims.' This statement is referring to which important attribute of financial intermediation?
- A. Asset transformation
  - B. Maturity transformation
  - C. Credit risk transformation
  - D. Denomination transformation
55. The main role of financial intermediaries is to:
- A. borrow funds from surplus units and lend them to borrowers.
  - B. provide advice to consumers on their finances.
  - C. provide funds for the government to cover budget deficits.
  - D. help ensure there are enough funds in circulation in a country.
56. Financial intermediaries pool the funds of:
- A. many small savers and make loans to a few large borrowers.
  - B. a few savers and make loans to many borrowers.
  - C. many small savers and make loans to many borrowers.
  - D. a few large savers and make loans to a few large borrowers.
57. Small savers prefer to use financial intermediaries rather than lending directly to borrowers because:
- A. financial intermediaries offer the savers a wide portfolio of financial instruments.
  - B. financial intermediaries offer much higher interest rates than can be obtained directly from borrowers.
  - C. borrowers dislike dealing with savers.
  - D. savers have a claim with the ultimate borrower via the financial intermediary.
58. Financial intermediaries can engage in credit risk transformation because they:
- A. obtain cost advantages owing to their size and business volumes transacted.
  - B. can quickly convert financial assets into cash, close to the current market price.
  - C. develop expertise in lending and diversifying loans.
  - D. can pool savers' short-term deposits and make long-term loans.
59. When a financial intermediary collects together deposits and lends them out as loans to companies, it is engaging in:
- A. liability management.
  - B. liquidity management.
  - C. credit transformation.
  - D. asset transformation.
60. 'Liquidity' in financial terms is
- A. a feature of money only.
  - B. the ease with which an asset can be sold at the published market price.
  - C. the best measure of risk of a financial asset.
  - D. to lower the rate of return for an asset.
61. When an individual has immediate access to their funds from an account with a financial intermediary, the intermediary is engaging in:
- A. asset transformation.
  - B. liability management.
  - C. liquidity management.
  - D. credit transformation.
62. When a financial intermediary can repeatedly use standardised documents, it is engaging in:
- A. liability management.
  - B. liquidity management.
  - C. credit transformation.
  - D. economies of scale.

63. According to the textbook, all of the following are financial intermediaries except a/an:
- A. bank.
  - B. insurance company.
  - C. superannuation fund.
  - D. share broking firm.
64. An example of a financial intermediary is:
- A. a stockbroker.
  - B. the Australian Securities Exchange.
  - C. the Australian Securities Commission.
  - D. an insurance company.
65. The main participants in the financial system are individuals, corporations and governments. Individuals are generally \_\_\_\_\_ of funds and corporations are net \_\_\_\_\_ of funds.
- A. borrowers; suppliers
  - B. users; providers
  - C. suppliers; users
  - D. demanders; providers
66. Which of the following borrowers would pay the lowest interest rate on debts of equal maturity?
- A. The National Bank of Australia
  - B. Telstra
  - C. The City of Sydney
  - D. The Commonwealth Government
67. Generally, in the long term, a government:
- A. is a net borrower of funds.
  - B. is a net supplier of funds.
  - C. borrows funds directly from households.
  - D. borrows funds directly from the financial market.
68. The \_\_\_\_\_ is created by a financial connection between providers and users of short-term funds.
- A. share market
  - B. capital market
  - C. money market
  - D. financial market
69. Which of the following is NOT usually a short-term discount security?
- A. Negotiable certificates of deposit
  - B. Commercial paper
  - C. Bank bills
  - D. Unsecured notes
70. Which of the following is NOT a feature of the money market?
- A. It is a mainly wholesale market
  - B. It deals with short-term financial claims
  - C. It is important in financing the working-capital needs of businesses and governments
  - D. It only operates as a market in which new security issues are created and marketed
71. The market that involves the buying and selling of short-term securities is the:
- A. securities market.
  - B. money market.
  - C. share market.
  - D. capital market.



72. A large company with a temporary surplus of funds is most likely to buy:
- A. bank bills.
  - B. convertible notes.
  - C. debentures.
  - D. shares.
73. A company that issues promissory notes into the short-term debt markets is conducting a transaction in the:
- A. commercial paper market.
  - B. inter-bank market.
  - C. bills market.
  - D. official short-term money market.
74. A company with a high credit rating can issue \_\_\_\_\_ directly into the money markets.
- A. CDs
  - B. Commercial paper
  - C. unsecured notes
  - D. debentures
75. The market that generally involves the buying and selling of discount securities is the:
- A. securities market.
  - B. money market.
  - C. share market.
  - D. capital market.
76. A source of short-term liquidity funding for banks is the issue of:
- A. bank bills.
  - B. debentures.
  - C. certificates of deposit.
  - D. commercial paper.
77. The market that includes individuals, companies and governments in the buying and selling of long-term debt and equity securities is the:
- A. currency market.
  - B. debt market.
  - C. capital market.
  - D. financial market.
78. When a company issues a long-term debt instrument with no security attached it is selling \_\_\_\_\_ to investors.
- A. shares
  - B. debentures
  - C. unsecured notes
  - D. term loans
79. From the viewpoint of a corporation, which source of long-term funding does not have to be repaid?
- A. Equity
  - B. Commercial paper
  - C. Corporate bonds
  - D. Bank bills
80. For additional funding, a company decides to issue \$15 million in corporate bonds. The securities will be issued into the:
- A. retail markets.
  - B. secondary markets.
  - C. money markets.
  - D. capital markets.

81. The major financial assets traded in the capital market are:
- A. bank bills and commercial paper.
  - B. Treasury notes and certificates of deposits.
  - C. bonds and convertible securities.
  - D. shares and bonds.
82. Compared with Treasury bonds, Treasury notes generally:
- A. have a longer maturity.
  - B. pay interest annually.
  - C. are issued in the capital markets.
  - D. are discount securities.
83. If you purchase an Australian government bond, that bond is:
- A. an asset to you but a liability for the Australian government.
  - B. an asset to you as well as an asset for the Australian government.
  - C. a liability to you but an asset for the Australian government.
  - D. a liability to you as well as a liability for the Australian government.
84. When government borrowing reduces the amount of funds available for lending to businesses, this is called:
- A. credit rationing.
  - B. crowding out.
  - C. capital rationing.
  - D. government quotas.
85. All of the following are key financial services provided by the financial system except:
- A. liquidity.
  - B. risk transfer.
  - C. profitability.
  - D. information.
86. Which of the following would be most likely to use financial markets to borrow?
- A. A household with a small amount saved
  - B. A small business wanting to borrow to buy some machinery
  - C. A government authority wanting to borrow to finance highway construction
  - D. A company with a poor credit rating
87. Generally, financial instruments are divided into three broad categories of equity, debt and derivatives. Which of the following are usually issued by a company to raise new funds?
- i. Unsecured notes
  - ii. Ordinary shares
  - iii. Debentures
  - iv. Bills of exchange
  - v. Futures contracts
  - vi. Preference shares
- A. ii, iii, iv, v
  - B. ii, iv, v, vi
  - C. i, ii, iii, iv
  - D. i, ii, iv, v
88. The movement of funds between the four sectors of a domestic economy and the rest of the world is called:
- A. flow of funds.
  - B. sector analysis.
  - C. sectorial flows.
  - D. cross-sector flows.

89. As a broad generalisation, in the sectorial flow of funds households are typically:
- A. a deficit sector.
  - B. a surplus sector.
  - C. fluctuates between a deficit sector and a neutral sector.
  - D. borrowers.
90. The flow of funds between the sectors of a nation-state:
- A. varies from year to year.
  - B. depends on the business cycle.
  - C. depends on the levels of economic activity.
  - D. relates to all of the given answers.
91. Money allows economic and financial transactions to be carried out more efficiently than bartering.  
True False
92. Four main attributes of an asset are return, risk, volatility and time-pattern of cash flows.  
True False
93. Deficit entities purchase financial instruments that offer the lowest interest rate.  
True False
94. Individuals may be categorised as risk averse, risk neutral or risk takers. Risk averse individuals will accept a lower rate of return so as to reduce their risk exposure.  
True False
95. A well-functioning financial system enables participants to readily change the composition of their financial assets portfolio.  
True False
96. Monetary policy relates to actions of a central bank to control the amount of money for transactions in an economy.  
L.O. 1.1 Explain the functions of a modern financial system.  
True False
97. The government organisation responsible for the conduct of monetary policy is the prudential supervisor of a country's banks.  
True False
98. Investment banks are contractual organisations that make up contracts for their corporate clients and governments.  
True False
99. In recent years, depository financial institutions have obtained a large proportion of their funds from the financial markets directly.  
True False
100. A stock is a debt security that promises to make specified interest payments.  
True False
101. Margin trading is the sale of a financial product that the seller does not own and who intends to buy back at a lower price later.  
True False

102.Explain how the properties of money facilitated the evolution of a modern financial system.

103.What is monetary policy and who is responsible for its implementation?

104.Explain what a debt security is. What are some common types of debt securities?

105.Identify and explain briefly the types of derivatives in a financial system.

106.The capital markets provide the opportunity for large corporations to manage their long-term cash flows.  
Discuss this statement using the example of a surplus entity and a deficit entity.

# 1 Key

1. The exchange of goods and services is made more efficient by:
- A. barters.
  - B. money.**
  - C. governments.
  - D. some combination of government transfer and barter.

Chapter - Chapter 01 #1

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

2. Short selling is:
- A. the sale of a financial product at a discount to its current market value.
  - B. the sale of a financial product in small quantities.
  - C. the sale of a financial product that the seller does not own.**
  - D. the sale of a financial product where the seller agrees to buy it back at a predetermined price.

Chapter - Chapter 01 #2

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

3. The term 'medium of exchange' for money refers to its use as:
- A. coinage.
  - B. currency.
  - C. something that is widely accepted as payment for goods and services.**
  - D. any standard of value that prices can be expressed in.

Chapter - Chapter 01 #3

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

4. The role of money as a store of value refers to:
- A. the value of money falling only when the money supply falls.
  - B. the value of money falling only when the money supply increases.
  - C. the fact that money allows worth to be stored readily.**
  - D. the fact that money never loses its value compared with other assets.

Chapter - Chapter 01 #4

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

5. Money increases economic growth by assisting transfers from:
- A. consumers to investors.
  - B. savers to borrowers.**
  - C. businesses to consumers.
  - D. borrowers to investors.

Chapter - Chapter 01 #5

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

6. Financial markets have developed to facilitate the exchange of money between savers and borrowers. Which of the following is NOT a function of money?
- A. A store of value
  - B. A medium of exchange for settling economic transactions
  - C. A claim to future cash flows**
  - D. Short-term protection against inflation

Chapter - Chapter 01 #6

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

7. Buyers of financial claims lend their excess funds because they:
- A. expect to borrow extra funds in the future.
  - B. want surplus funds in the future.**
  - C. want to invest in the future.
  - D. want to increase their costs relative to their incomes.

Chapter - Chapter 01 #7

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

8. Sellers of financial claims promise to pay back borrowed funds:
- A. by borrowing extra funds in the future.
  - B. based on their expectation of having surplus funds in the future.**
  - C. by selling other assets.
  - D. by reducing their costs relative to their incomes.

Chapter - Chapter 01 #8

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

9. A savings-surplus unit is an entity:
- A. that needs to borrow funds from a surplus unit.
  - B. which has an income that exceeds its spending.**
  - C. whose spending exceeds its income.
  - D. called a company.

Chapter - Chapter 01 #9

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

10. The process of facilitating the flow of funds between borrowers and lenders performed by the financial system:
- A. is hindered by the problem of 'double coincidence of wants'.
  - B. greatly reduces the probability of inflation.
  - C. increases the rate of economic growth of a country.**
  - D. occurs only through financial intermediaries.

Chapter - Chapter 01 #10

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

11. Both real and financial assets have four principal attributes that are significant factors in the investment decision process. These are:
- I. liquidity
  - II. capital gain
  - III. risk
  - IV. return or yield
  - V. time pattern of future cash flows
  - VI. price and cash flow volatility
- A. I, II, III, IV  
**B. I, III, IV, V**  
C. I, III, IV, VI  
D. II, III, IV, V

Chapter - Chapter 01 #11

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: 1.1 Functions of a financial system

12. Which of the following is NOT associated with characteristics of shares?
- A. Part ownership of a company  
B. Capital gains  
**C. A fixed interest payment**  
D. Dividends

Chapter - Chapter 01 #12

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.

Section: 1.1 Functions of a financial system

13. A financial institution that obtains most of its funds from deposits is a/an:
- A. investment bank.  
B. unit trust.  
**C. commercial bank.**  
D. general insurer.

Chapter - Chapter 01 #13

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-02 Categorise the main types of financial institutions, being depository financial institutions, investment banks and merchant banks, contractual savings institutions, finance companies and unit trusts.

Section: 1.2 Financial institutions

14. Institutions that specialise in off-balance-sheet advisory services are called:
- A. depository financial institutions.  
B. contractual institutions.  
C. finance companies.  
**D. investment banks.**

Chapter - Chapter 01 #14

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-02 Categorise the main types of financial institutions, being depository financial institutions, investment banks and merchant banks, contractual savings institutions, finance companies and unit trusts.

Section: 1.2 Financial institutions

15. A financial intermediary that receives premium payments which are used to purchase assets to cover future possible payments is a:
- A. building society.  
B. credit union.  
C. savings bank.  
**D. life insurance office.**

Chapter - Chapter 01 #15

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-02 Categorise the main types of financial institutions, being depository financial institutions, investment banks and merchant banks, contractual savings institutions, finance companies and unit trusts.

Section: 1.2 Financial institutions

16. Financial institutions whose liabilities specify that, in return for the payment of periodic funds to the institution, the institution will make payments in the future (if and when a specified event occurs) are:
- A. money market corporations.
  - B. unit trusts.
  - C. contractual savings institutions.**
  - D. depository financial institutions.

Chapter - Chapter 01 #16

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-02 Categorise the main types of financial institutions, being depository financial institutions, investment banks and merchant banks, contractual savings institutions, finance companies and unit trusts.

Section: 1.2 Financial institutions

17. Financial institutions that raise the majority of their funds by selling securities in the money markets are:
- A. commercial banks.
  - B. building societies.
  - C. finance companies.**
  - D. life insurance offices.

Chapter - Chapter 01 #17

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-02 Categorise the main types of financial institutions, being depository financial institutions, investment banks and merchant banks, contractual savings institutions, finance companies and unit trusts.

Section: 1.2 Financial institutions

18. Financial institutions that are formed under a trust deed and attract funds by inviting the public to buy units are:
- A. finance companies
  - B. building societies.
  - C. unit trusts.**
  - D. life insurance offices.

Chapter - Chapter 01 #18

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-02 Categorise the main types of financial institutions, being depository financial institutions, investment banks and merchant banks, contractual savings institutions, finance companies and unit trusts.

Section: 1.2 Financial institutions

19. Which of the following is NOT a term associated with shares?
- A. Residual
  - B. Ownership
  - C. Voting rights
  - D. Contractual claim**

Chapter - Chapter 01 #19

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.

Section: 1.3 Financial instruments

20. Which of the following is NOT a characteristic commonly associated with preference shares?
- A. A specified, fixed return
  - B. No voting rights
  - C. Higher ranking than bond holders on claims on assets**
  - D. No entitlement to take possession of assets if the borrower defaults on payment

Chapter - Chapter 01 #20

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.

Section: 1.3 Financial instruments



21. Long-term debt financing instruments used by companies are called:
- A. bills.
  - B. debentures.**
  - C. shares.
  - D. equities.

Chapter - Chapter 01 #21

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.  
Section: 1.3 Financial instruments

22. When a borrower issues a debt instrument with collateral specified in its contract this debt instrument is called:
- A. unsecured.
  - B. secured.**
  - C. defined.
  - D. negotiable.

Chapter - Chapter 01 #22

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.  
Section: 1.3 Financial instruments

23. Debt instruments that can be easily sold and transferred in the financial markets are called:
- A. negotiable.**
  - B. secured.
  - C. unsecured.
  - D. discounted.

Chapter - Chapter 01 #23

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.  
Section: 1.3 Financial instruments

24. Which of the following is NOT a feature of a debt instrument?
- A. A contractual claim against the borrower
  - B. Periodic interest payments
  - C. Higher claim on assets of borrower than equity holders
  - D. Their prices do not fluctuate as much as shares**

Chapter - Chapter 01 #24

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.  
Section: 1.3 Financial instruments

25. Which of the following is NOT a feature of futures contracts?
- A. Futures contracts involve an obligation to buy or sell a specified amount
  - B. Trading of contracts occurs on an exchange
  - C. The contract price is settled at the end of the contract**
  - D. Trading an opposite contract usually closes out the contract

Chapter - Chapter 01 #25

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.  
Section: 1.3 Financial instruments

26. Which of the following is NOT a feature of forward contracts?
- A. Forward contracts are not standardised
  - B. Forward contracts do not trade on organised exchanges
  - C. The contract price may be settled at the end of the contract
  - D. Forward contracts are closed out by trading an opposite contract**

Chapter - Chapter 01 #26

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.  
Section: 1.3 Financial instruments

27. Which of the following is NOT a feature of option contracts?
- A. The buyer does not have an obligation to proceed with the contract
  - B. The writer of the contract receives a fee
  - C. The price of the designated asset is determined at the beginning of the contract
  - D. The right to buy is called a put option**

Chapter - Chapter 01 #27

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.

Section: 1.3 Financial instruments

28. Which of the following is NOT a feature of swaps?
- A. There is a contractual arrangement to exchange cash flows
  - B. Interest rate swaps exchange principal at the beginning and the end**
  - C. A fixed rate obligation may be exchanged for a variable rate obligation
  - D. A swap can involve interest payments and currencies

Chapter - Chapter 01 #28

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.

Section: 1.3 Financial instruments

29. The key reason for the existence of markets of financial assets is:
- A. that holders of shares generally want to exchange them for bonds and other financial instruments.**
  - B. the high expenditure for many individuals and businesses.
  - C. that the lack of money in an economy makes trade in financial assets necessary.
  - D. the refusal of most modern governments to print money on demand.

Chapter - Chapter 01 #29

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

30. Financial markets:
- A. facilitate the exchange of financial assets.
  - B. provide information about prices of financial assets.
  - C. provide a channel for funds to flow between the providers and users of funds.
  - D. all of the given choices.**

Chapter - Chapter 01 #30

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

31. The most important function of a financial market is to:
- A. provide information about shares.
  - B. provide a market for shares.
  - C. facilitate the flow of funds between lenders and borrowers.**
  - D. provide employment for brokers and agents.

Chapter - Chapter 01 #31

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

32. Financial markets:
- A. act as intermediaries by holding a collection of assets and issuing claims based on them to savers.
  - B. issue claims on future cash flows of individual borrowers directly to lenders.**
  - C. transmit funds indirectly between lenders and borrowers.
  - D. usually provide lenders with lower returns than other financial intermediaries.

Chapter - Chapter 01 #32

Difficulty: Hard

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

33. A primary financial market is one that:
- A. offers financial assets with the highest expected return.
  - B. offers the greatest number of financial assets.
  - C. involves the sale of financial assets for the first time.
  - D. offers financial assets with the highest historical return.

Chapter - Chapter 01 #33

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

34. A secondary financial market is one that:
- A. offers financial assets with the highest expected return.
  - B. offers the greatest number of financial assets.
  - C. involves the sale of existing financial assets.
  - D. offers financial assets with the highest historical return.

Chapter - Chapter 01 #34

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

35. Purchasing shares on the Australian Securities Exchange is an example of:
- A. a primary market transaction.
  - B. companies raising finance from another financial intermediary.
  - C. companies raising new finance.
  - D. a secondary market transaction.

Chapter - Chapter 01 #35

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

36. When a security is sold in the financial markets for the first time:
- A. funds flow from the saver to the issuer.
  - B. funds flow from the borrower to the saver.
  - C. it represents a secondary transaction to the underwriter.
  - D. it is an asset for the borrower.

Chapter - Chapter 01 #36

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

37. Which of the following is NOT an example of primary market transactions?
- A. A company issue of shares to raise funds for an investment project
  - B. A government issue of bonds
  - C. A mortgage bond
  - D. A mortgage loan to buy a house

Chapter - Chapter 01 #37

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

38. A 'primary market' is a market:  
A. only for equity issues by major or 'primary' companies.  
**B.** where borrowers sell new financial instruments to buyers.  
C. where savers sell new financial claims to borrowers.  
D. where government securities are bought and sold.

Chapter - Chapter 01 #38

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

39. Buying bonds in the capital markets is an example of:  
**A.** a secondary market transaction.  
B. a primary market transaction.  
C. companies raising new funds.  
D. companies raising funds from a secondary source.

Chapter - Chapter 01 #39

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

40. The market where existing securities are sold is the:  
A. economic market.  
B. primary market.  
**C.** secondary market.  
D. financial market.

Chapter - Chapter 01 #40

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

41. When a large company issues a financial instrument into the financial markets:  
A. funds flow indirectly from saver to borrower.  
B. the cost of funds is generally higher owing to the risk involved.  
C. it buys a financial claim.  
**D.** it sells a financial claim.

Chapter - Chapter 01 #41

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

42. Secondary markets:  
A. allow borrowers to raise long-term funds.  
B. facilitate capital-raising in the primary market.  
C. do not raise new funds but offer liquidity.  
**D.** all of the given answers.

Chapter - Chapter 01 #42

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

43. The flow of funds through financial markets increases the volume of savings and investment by:
- A. maintaining low interest rates.
  - B. storing large quantities of cash.
  - C.** providing savers with a variety of ways to lend to borrowers.
  - D. offering lower interest rates than could be obtained directly from borrowers.

Chapter - Chapter 01 #43

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

44. Which of the following statements is NOT a feature of financial markets?
- A. Financial markets generally provide borrowers with lower cost funds than through a financial intermediary.
  - B. Funds are channelled directly from savers to borrowers.
  - C. Contractual agreements are issued between savers and borrowers.
  - D.** Financial markets generally deal only with the purchase and sale of government securities.

Chapter - Chapter 01 #44

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

45. Which of the following is NOT true—a well-functioning financial market:
- A. has a steadily increasing liquidity for most assets.
  - B. offers increased ease of restructuring portfolios of assets.
  - C. has a quick assimilation of information into asset prices.
  - D.** has a selection of financial assets with similar timings of cash flow.

Chapter - Chapter 01 #45

Difficulty: Hard

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

46. Financial markets:
- A. act as intermediaries between borrowers and savers.
  - B. directly issue claims on savers to borrowers.
  - C. involve the buying and selling of existing financial securities only.
  - D.** involve both primary and secondary transactions.

Chapter - Chapter 01 #46

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

47. Direct financing allows a borrower to:
- A. easily assess a lender's level of default risk.
  - B. match amounts and maturity of investments with borrowers.
  - C. lower search and transaction costs.
  - D.** diversify their funding sources.

Chapter - Chapter 01 #47

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

48. Which of the following is NOT a possible disadvantage of direct financing?
- A. Matching amounts of funds to be borrowed with those to be lent
  - B. Assessment of the risk of the borrower
  - C. Cost of preparing legal contracts, taxation and accounting advice
  - D.** Cost of the financial intermediary involved

Chapter - Chapter 01 #48

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

49. An issue of debentures is an example of:
- A. a secondary market transaction.
  - B. fundraising through financial intermediaries.
  - C.** a direct form of funding.
  - D. an indirect form of funding.

Chapter - Chapter 01 #49

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

50. An example of an indirect form of funding is a/an:
- A. issue of debentures.
  - B. issue of unsecured notes.
  - C.** term loan.
  - D. issue of shares.

Chapter - Chapter 01 #50

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

51. Which of the following is NOT a major advantage of direct finance?
- A. Direct finance reduces financial institution' fees.
  - B. Direct finance allows borrowers to diversify sources of funds.
  - C. Direct finance allows greater flexibility in funding types.
  - D.** Direct finance reduces search and transactions costs.

Chapter - Chapter 01 #51

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

52. Financial intermediaries:
- A.** act as a third party by holding a portfolio of assets and issuing claims based on them to savers.
  - B. issue claims on future cash flows of individual borrowers directly to lenders.
  - C. transmit funds directly between lenders and borrowers.
  - D. usually provide lenders with lower returns than other financial institutions.

Chapter - Chapter 01 #52

Difficulty: Hard

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

53. The flow of funds between lenders and borrowers is channelled:
- A. indirectly through financial markets.
  - B. directly through financial intermediaries.
  - C. indirectly through financial intermediaries.**
  - D. mainly through government agencies.

Chapter - Chapter 01 #53

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

54. 'Intermediaries, by managing the deposits they receive, are able to make long-term loans while satisfying savers' preferences for liquid claims.' This statement is referring to which important attribute of financial intermediation?
- A. Asset transformation
  - B. Maturity transformation**
  - C. Credit risk transformation
  - D. Denomination transformation

Chapter - Chapter 01 #54

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

55. The main role of financial intermediaries is to:
- A. borrow funds from surplus units and lend them to borrowers.**
  - B. provide advice to consumers on their finances.
  - C. provide funds for the government to cover budget deficits.
  - D. help ensure there are enough funds in circulation in a country.

Chapter - Chapter 01 #55

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

56. Financial intermediaries pool the funds of:
- A. many small savers and make loans to a few large borrowers.
  - B. a few savers and make loans to many borrowers.
  - C. many small savers and make loans to many borrowers.**
  - D. a few large savers and make loans to a few large borrowers.

Chapter - Chapter 01 #56

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

57. Small savers prefer to use financial intermediaries rather than lending directly to borrowers because:
- A. financial intermediaries offer the savers a wide portfolio of financial instruments.**
  - B. financial intermediaries offer much higher interest rates than can be obtained directly from borrowers.
  - C. borrowers dislike dealing with savers.
  - D. savers have a claim with the ultimate borrower via the financial intermediary.

Chapter - Chapter 01 #57

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

58. Financial intermediaries can engage in credit risk transformation because they:
- A. obtain cost advantages owing to their size and business volumes transacted.
  - B. can quickly convert financial assets into cash, close to the current market price.
  - C. develop expertise in lending and diversifying loans.**
  - D. can pool savers' short-term deposits and make long-term loans.

Chapter - Chapter 01 #58

Difficulty: Hard

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

59. When a financial intermediary collects together deposits and lends them out as loans to companies, it is engaging in:
- A. liability management.
  - B. liquidity management.
  - C. credit transformation.
  - D. asset transformation.**

Chapter - Chapter 01 #59

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

60. 'Liquidity' in financial terms is
- A. a feature of money only.
  - B. the ease with which an asset can be sold at the published market price.**
  - C. the best measure of risk of a financial asset.
  - D. to lower the rate of return for an asset.

Chapter - Chapter 01 #60

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

61. When an individual has immediate access to their funds from an account with a financial intermediary, the intermediary is engaging in:
- A. asset transformation.
  - B. liability management.
  - C. liquidity management.**
  - D. credit transformation.

Chapter - Chapter 01 #61

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

62. When a financial intermediary can repeatedly use standardised documents, it is engaging in:
- A. liability management.
  - B. liquidity management.
  - C. credit transformation.
  - D. economies of scale.**

Chapter - Chapter 01 #62

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets



63. According to the textbook, all of the following are financial intermediaries except a/an:
- A. bank.
  - B. insurance company.
  - C. superannuation fund.
  - D. share broking firm.**

Chapter - Chapter 01 #63

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

64. An example of a financial intermediary is:
- A. a stockbroker.
  - B. the Australian Securities Exchange.
  - C. the Australian Securities Commission.
  - D. an insurance company.**

Chapter - Chapter 01 #64

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

65. The main participants in the financial system are individuals, corporations and governments. Individuals are generally \_\_\_\_\_ of funds and corporations are net \_\_\_\_\_ of funds.
- A. borrowers; suppliers
  - B. users; providers
  - C. suppliers; users**
  - D. demanders; providers

Chapter - Chapter 01 #65

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: 1.5 Flow of funds, market relationships and stability

66. Which of the following borrowers would pay the lowest interest rate on debts of equal maturity?
- A. The National Bank of Australia
  - B. Telstra
  - C. The City of Sydney
  - D. The Commonwealth Government**

Chapter - Chapter 01 #66

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: 1.1 Functions of a financial system

67. Generally, in the long term, a government:
- A. is a net borrower of funds.**
  - B. is a net supplier of funds.
  - C. borrows funds directly from households.
  - D. borrows funds directly from the financial market.

Chapter - Chapter 01 #67

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: 1.5 Flow of funds, market relationships and stability

68. The \_\_\_\_\_ is created by a financial connection between providers and users of short-term funds.
- A. share market
  - B. capital market
  - C. money market**
  - D. financial market

Chapter - Chapter 01 #68

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

69. Which of the following is NOT usually a short-term discount security?
- A. Negotiable certificates of deposit
  - B. Commercial paper
  - C. Bank bills
  - D. Unsecured notes**

Chapter - Chapter 01 #69

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

70. Which of the following is NOT a feature of the money market?
- A. It is a mainly wholesale market
  - B. It deals with short-term financial claims
  - C. It is important in financing the working-capital needs of businesses and governments
  - D. It only operates as a market in which new security issues are created and marketed**

Chapter - Chapter 01 #70

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

71. The market that involves the buying and selling of short-term securities is the:
- A. securities market.
  - B. money market.**
  - C. share market.
  - D. capital market.

Chapter - Chapter 01 #71

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

72. A large company with a temporary surplus of funds is most likely to buy:
- A. bank bills.**
  - B. convertible notes.
  - C. debentures.
  - D. shares.

Chapter - Chapter 01 #72

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

73. A company that issues promissory notes into the short-term debt markets is conducting a transaction in the:
- A.** commercial paper market.
  - B. inter-bank market.
  - C. bills market.
  - D. official short-term money market.

Chapter - Chapter 01 #73

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

74. A company with a high credit rating can issue \_\_\_\_\_ directly into the money markets.
- A. CDs
  - B. Commercial paper
  - C.** unsecured notes
  - D. debentures

Chapter - Chapter 01 #74

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

75. The market that generally involves the buying and selling of discount securities is the:
- A. securities market.
  - B.** money market.
  - C. share market.
  - D. capital market.

Chapter - Chapter 01 #75

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

76. A source of short-term liquidity funding for banks is the issue of:
- A. bank bills.
  - B. debentures.
  - C.** certificates of deposit.
  - D. commercial paper.

Chapter - Chapter 01 #76

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

77. The market that includes individuals, companies and governments in the buying and selling of long-term debt and equity securities is the:
- A. currency market.
  - B. debt market.
  - C.** capital market.
  - D. financial market.

Chapter - Chapter 01 #77

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

78. When a company issues a long-term debt instrument with no security attached it is selling \_\_\_\_\_ to investors.
- A. shares
  - B. debentures
  - C. unsecured notes**
  - D. term loans

Chapter - Chapter 01 #78

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

79. From the viewpoint of a corporation, which source of long-term funding does not have to be repaid?
- A. Equity**
  - B. Commercial paper
  - C. Corporate bonds
  - D. Bank bills

Chapter - Chapter 01 #79

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

80. For additional funding, a company decides to issue \$15 million in corporate bonds. The securities will be issued into the:
- A. retail markets.
  - B. secondary markets.
  - C. money markets.
  - D. capital markets.**

Chapter - Chapter 01 #80

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

81. The major financial assets traded in the capital market are:
- A. bank bills and commercial paper.
  - B. Treasury notes and certificates of deposits.
  - C. bonds and convertible securities.
  - D. shares and bonds.**

Chapter - Chapter 01 #81

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

82. Compared with Treasury bonds, Treasury notes generally:
- A. have a longer maturity.
  - B. pay interest annually.
  - C. are issued in the capital markets.
  - D. are discount securities.**

Chapter - Chapter 01 #82

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

83. If you purchase an Australian government bond, that bond is:  
**A.** an asset to you but a liability for the Australian government.  
B. an asset to you as well as an asset for the Australian government.  
C. a liability to you but an asset for the Australian government.  
D. a liability to you as well as a liability for the Australian government.

Chapter - Chapter 01 #83

Difficulty: Hard

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.

Section: 1.4 Financial markets

84. When government borrowing reduces the amount of funds available for lending to businesses, this is called:  
A. credit rationing.  
**B.** crowding out.  
C. capital rationing.  
D. government quotas.

Chapter - Chapter 01 #84

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-06 Analyse the flow of funds through the financial system and the economy and briefly discuss the importance of 'stability' in relation to the flow of funds.

Section: 1.4 Financial markets

85. All of the following are key financial services provided by the financial system except:  
A. liquidity.  
B. risk transfer.  
**C.** profitability.  
D. information.

Chapter - Chapter 01 #85

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: 1.1 Functions of a financial system

86. Which of the following would be most likely to use financial markets to borrow?  
A. A household with a small amount saved  
B. A small business wanting to borrow to buy some machinery  
**C.** A government authority wanting to borrow to finance highway construction  
D. A company with a poor credit rating

Chapter - Chapter 01 #86

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-04 Discuss the nature of the flow of funds between savers and borrowers, including primary markets, secondary markets, direct finance and intermediated finance.

Section: 1.4 Financial markets

87. Generally, financial instruments are divided into three broad categories of equity, debt and derivatives. Which of the following are usually issued by a company to raise new funds?  
i. Unsecured notes  
ii. Ordinary shares  
iii. Debentures  
iv. Bills of exchange  
v. Futures contracts  
vi. Preference shares  
A. ii, iii, iv, v  
B. ii, iv, v, vi  
**C.** i, ii, iii, iv  
D. i, ii, iv, v

Chapter - Chapter 01 #87

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.

Section: 1.4 Financial markets

88. The movement of funds between the four sectors of a domestic economy and the rest of the world is called:  
**A.** flow of funds.  
B. sector analysis.  
C. sectorial flows.  
D. cross-sector flows.

Chapter - Chapter 01 #88

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-06 Analyse the flow of funds through the financial system and the economy and briefly discuss the importance of 'stability' in relation to the flow of funds.

Section: 1.5 Flow of funds, market relationships and stability

89. As a broad generalisation, in the sectorial flow of funds households are typically:  
A. a deficit sector.  
**B.** a surplus sector.  
C. fluctuates between a deficit sector and a neutral sector.  
D. borrowers.

Chapter - Chapter 01 #89

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-06 Analyse the flow of funds through the financial system and the economy and briefly discuss the importance of 'stability' in relation to the flow of funds.

Section: 1.5 Flow of funds, market relationships and stability

90. The flow of funds between the sectors of a nation-state:  
A. varies from year to year.  
B. depends on the business cycle.  
C. depends on the levels of economic activity.  
**D.** relates to all of the given answers.

Chapter - Chapter 01 #90

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-06 Analyse the flow of funds through the financial system and the economy and briefly discuss the importance of 'stability' in relation to the flow of funds.

Section: 1.5 Flow of funds, market relationships and stability

91. Money allows economic and financial transactions to be carried out more efficiently than bartering.  
**TRUE**

Bartering generally involves high search costs.

Chapter - Chapter 01 #91

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

92. Four main attributes of an asset are return, risk, volatility and time-pattern of cash flows.  
**FALSE**

The attributes are return, risk, *liquidity* and time-pattern.

Chapter - Chapter 01 #92

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: 1.1 Functions of a financial system

93. Deficit entities purchase financial instruments that offer the lowest interest rate.  
**FALSE**

Deficit entities sell financial instruments.

Chapter - Chapter 01 #93

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-02 Categorise the main types of financial institutions, being depository financial institutions, investment banks and merchant banks, contractual savings institutions, finance companies and unit trusts.

Section: 1.2 Financial institutions

94. Individuals may be categorised as risk averse, risk neutral or risk takers. Risk averse individuals will accept a lower rate of return so as to reduce their risk exposure.  
**TRUE**

An investor who prefers an investment with less risk to another with more risk, provided they offer the same expected return, is risk averse.

Chapter - Chapter 01 #94

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: 1.1 Functions of a financial system

95. A well-functioning financial system enables participants to readily change the composition of their financial assets portfolio.  
**TRUE**

With liquid markets and financial intermediaries, investors are able to change their portfolios.

Chapter - Chapter 01 #95

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: Introduction

96. Monetary policy relates to actions of a central bank to control the amount of money for transactions in an economy.  
L.O. 1.1 Explain the functions of a modern financial system.  
**FALSE**

From the early days of banking it was recognised that there needed to be control over the money supply. A country's central bank was usually assigned this task.

Chapter - Chapter 01 #96

Difficulty: Easy

Est time: <1 minute

Section: 1.1 Functions of a financial system

97. The government organisation responsible for the conduct of monetary policy is the prudential supervisor of a country's banks.  
**FALSE**

Generally, the task of monetary policy is assigned to a central bank.

Chapter - Chapter 01 #97

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.

Section: 1.1 Functions of a financial system

98. Investment banks are contractual organisations that make up contracts for their corporate clients and governments.

**FALSE**

Investment banks generally focus on provision of advisory services for corporate and government clients.

Chapter - Chapter 01 #98

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-02 Categorise the main types of financial institutions, being depository financial institutions, investment banks and merchant banks, contractual savings institutions, finance companies and unit trusts.  
Section: 1.2 Financial institutions

99. In recent years, depository financial institutions have obtained a large proportion of their funds from the financial markets directly.

**FALSE**

For the major financial intermediaries (the banks) the bulk of their funds are still obtained from deposits.

Chapter - Chapter 01 #99

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-02 Categorise the main types of financial institutions, being depository financial institutions, investment banks and merchant banks, contractual savings institutions, finance companies and unit trusts.  
Section: 1.2 Financial institutions

100. A stock is a debt security that promises to make specified interest payments.

**FALSE**

A stock is a share that promises to pay dividends.

Chapter - Chapter 01 #100

Difficulty: Easy

Est time: <1 minute

Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.  
Section: 1.3 Financial instruments

101. Margin trading is the sale of a financial product that the seller does not own and who intends to buy back at a lower price later.

**FALSE**

Short selling is the sale of a financial product that the seller does not own.

Chapter - Chapter 01 #101

Difficulty: Medium

Est time: <1 minute

Learning Objective: 01-01 Explain the functions of a modern financial system.  
Section: Introduction



102. Explain how the properties of money facilitated the evolution of a modern financial system.

As a medium of exchange, money makes markets in goods and services more efficient. If goods and services are exchanged only for other goods and services as in the case of barter, there are considerable transaction costs. When transaction costs are low, individuals can find it easier to specialise in the production of goods and services. This can lead to a more active and productive economy. As a store of value, money makes it easier for individuals to save their surplus earnings. It is also more readily divisible than physical goods so that it can be appropriately apportioned according to the size of the transaction. Consequently, an efficient flow of funds between savers and users of funds is a part of a modern financial system.

*Chapter - Chapter 01 #102*

*Difficulty: Hard*

*Est time: 1-3 minutes*

*Learning Objective: 01-01 Explain the functions of a modern financial system.*

*Section: Introduction*

103. What is monetary policy and who is responsible for its implementation?

Monetary policy is the use of interest rates to control inflation, usually in a specified range, and to promote economic growth. A central bank is usually responsible for carrying out monetary policy.

*Chapter - Chapter 01 #103*

*Difficulty: Medium*

*Est time: 1-3 minutes*

*Learning Objective: 01-01 Explain the functions of a modern financial system.*

*Section: Introduction*

104. Explain what a debt security is. What are some common types of debt securities?

A debt security represents a contractual claim against the issuer of the instrument who has borrowed the funds. The borrower agrees to abide by the terms of the contract such as meeting covenants. A major part of the contract is the terms of payment to the lender. Corporations issue debt securities such as debentures, term loans, commercial bills, promissory notes and unsecured notes.

*Chapter - Chapter 01 #104*

*Difficulty: Medium*

*Est time: 1-3 minutes*

*Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.*

*Section: 1.4 Financial markets*

105. Identify and explain briefly the types of derivatives in a financial system.

There are four basic types of derivative contracts.

1. A futures contract is a contract to buy (or sell) a specified amount of a commodity or financial instrument at a price determined today for delivery or payment at a future specified date.
2. A forward contract has features similar to a futures contract but is generally more flexible as it is negotiated with a bank or investment bank.
3. An option gives the buyer the right but not the obligation to buy (or sell) a certain asset before or at a specified date at a predetermined price.
4. A swap contract is an arrangement to exchange specified future cash flows. With an interest rate swap, there is an exchange of future cash flows, such as one based on a floating interest rate and the other on a fixed interest rate on a notional principal.

*Chapter - Chapter 01 #105*

*Difficulty: Hard*

*Est time: 1-3 minutes*

*Learning Objective: 01-03 Define the main classes of financial instruments that are issued into the financial system; that is, equity, debt, hybrids and derivatives.*

*Section: 1.3 Financial instruments*

106. The capital markets provide the opportunity for large corporations to manage their long-term cash flows. Discuss this statement using the example of a surplus entity and a deficit entity.

The debt part of capital markets consists of a range of instruments. Large creditworthy companies seeking funds can issue long-term securities such as bonds or unsecured notes directly into capital markets. Organisations such as superannuation funds or insurance companies with funds to invest can buy these instruments for part of their portfolio.

*Chapter - Chapter 01 #106*

*Difficulty: Easy*

*Est time: 1-3 minutes*

*Learning Objective: 01-05 Distinguish between various financial market structures, including wholesale markets and retail markets, and money markets and capital markets.*

*Section: 1.4 Financial markets*

# 1 Summary

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