Chapter 1 An Introduction to Investments

TRUE/FALSE

T 1. The investor should specify the objectives of investing.

T 2. The terms "investing" and “trading” refer to purchasing and selling securities.

T 3. Investments are made in anticipation of a return.

T 4. The anticipated return and the realized return often differ.

F 5. Capital gains are the sole source of the return on an investment.

T 6. Risk is the uncertainty that the realized return may differ from the expected.

T 7. Stocks are initially sold in the “primary” market and subsequently traded in the “secondary” market.

F 8. Liquidity refers to the ease of selling a stock for a capital gain.

F 9. Efficient markets suggests that investors will outperform the market consistently.

F 10. An informed investor can expect to consistently outperform the market.

T 11. CFA is a professional designation for individuals seeking positions as portfolio managers.

T 12. Portfolio assessment should include measures of both risk and return.

MULTIPLE CHOICE

d 1. Reasons for saving and investing include

1. need for funds to meet emergencies

2. retirement income

3. desire to leave an estate for children

a. 1 and 2

b. 1 and 3

c. 2 and 3

d. all of the above

a 2. Which of the following is an investment as defined

by an economist?

a. equipment

b. land

c. stock

d. savings account

a 3. Which of the following is not an investment in the

layperson's general use of the term?

a. equipment

b. land

c. stock

d. savings account

d 4. Many investments such as stock have common

characteristics including

1. existence of secondary markets

2. risk

3. potential for capital gains

a. 1 and 2

b. 1 and 3

c. 2 and 3

d. all of the above

d 5. Risk

a. depends solely on price fluctuations

b. should be maximized to increase returns

c. is reduced through specialization

d. refers to the uncertainty of returns

b 6. Financial investments are made in efficient markets.

The existence of these markets suggests that

a. investors cannot earn superior returns

b. investors cannot expect to outperform the market

consistently

c. securies prices are random

d. bearing additional risk will not increase return

d 7. Diversification reduces

a. income

b. capital gains

c. taxes

d. risk

c 8. Trading implies

a. frequently buying securities

b. frequently selling securities

c. frequently buying and selling securities

d. investing