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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. The investor should specify the objectives of investing.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. The terms "investing" and “trading” refer to purchasing and selling securities.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. Investments are made in anticipation of a return.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. The anticipated return and the realized return often differ.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 5. Capital gains are the sole source of the return on an investment.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 6. Risk is the uncertainty that the realized return may differ from the expected.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 7. Stocks are initially sold in the “primary” market and subsequently traded in the “secondary” market.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 8. Liquidity refers to the ease of selling a stock for a capital gain.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 9. Efficient markets suggests that investors will outperform the market consistently.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. An informed investor can expect to consistently outperform the market.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. Portfolio assessment should include measures of both risk and return.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. 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 |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 13. Which of the following is an investment as defined by an economist?   |  |  |  | | --- | --- | --- | |  | a. | equipment | |  | b. | land | |  | c. | stock | |  | d. | savings account |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 14. 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 |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. 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 |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. 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 |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 17. 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 |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. Diversification reduces   |  |  |  | | --- | --- | --- | |  | a. | income | |  | b. | capital gains | |  | c. | taxes | |  | d. | risk |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. Trading implies   |  |  |  | | --- | --- | --- | |  | a. | frequently buying securities | |  | b. | frequently selling securities | |  | c. | frequently buying and selling securities | |  | d. | investing |  |  |  | | --- | --- | | *ANSWER:* | c | |