

## Chapter 23

### Mutual Fund Operations

1. Which of the following statements is incorrect?
  - A) Mutual funds serve as a key financial intermediary.
  - B) Managers of mutual funds do not analyze economic and industry trends.
  - C) Because of their diversification, management expertise, and liquidity, mutual funds have grown at a rapid pace.
  - D) Some mutual funds offer check-writing privileges.

ANSWER: B

2. No-load mutual funds are normally promoted by \_\_\_\_\_. Load funds are promoted by \_\_\_\_\_.
  - A) registered representatives of a brokerage firm; registered representatives of a brokerage firm
  - B) registered representatives of a brokerage firm; the mutual fund of concern
  - C) the mutual fund of concern; registered representatives of a brokerage firm
  - D) the mutual fund of concern; the mutual fund of concern

ANSWER: C

3. To cover managerial expenses, mutual funds typically charge:
  - A) management fees of 1 to 2 percent of total assets per year.
  - B) commissions of typically 8 to 10 percent of transaction market value per year.
  - C) management fees of typically more than 10 percent of total assets per year.
  - D) commissions of typically 3 to 5 percent of transaction market value per year.

ANSWER: A

4. Mutual funds that are willing to repurchase their shares from investors at any time are referred to as \_\_\_\_\_ mutual funds.
  - A) closed-end
  - B) load
  - C) no-load
  - D) open-end

ANSWER: D

5. Mutual funds that do not repurchase their shares from investors are \_\_\_\_\_ mutual funds.
  - A) closed-end
  - B) load
  - C) no-load
  - D) open-end

ANSWER: A

6. Most closed-end funds invest in:
- A) stock and bonds.
  - B) money market securities.
  - C) gold.
  - D) derivatives.

ANSWER: A

7. Exchange-traded funds are like open-end funds in the sense that:
- A) their shares are traded on an exchange, and their share price changes throughout the day.
  - B) they have a fixed number of shares.
  - C) they are not actively managed.
  - D) none of these.

ANSWER: D

8. Hedge funds differ from open-end mutual funds in the sense that:
- A) they require a much smaller initial investment.
  - B) they are open to additional investments at any time.
  - C) they do not accommodate investors who want to sell their shares back to the fund.
  - D) they invest in a very limited set of securities.

ANSWER: C

9. Mutual funds:
- A) are unregulated.
  - B) are required to disclose the names of their portfolio managers in the prospectus.
  - C) must disclose their performance record over the past 20 years.
  - D) are exempt from all taxes.

ANSWER: B

10. Which of the following is *not* disclosed in the prospectus?
- A) the minimum amount of investment required
  - B) the investment objective of the funds
  - C) the fees incurred by the mutual fund
  - D) All of these are disclosed in the prospectus.

ANSWER: D

11. Money market funds invest mostly in:
- A) stocks.
  - B) long-term bonds.
  - C) real estate.
  - D) short-term securities.

ANSWER: D

12. If investors sell their mutual fund shares after the net asset value of the fund increases, the return is called:
- A) share price appreciation.
  - B) capital gains distribution.
  - C) dividends.
  - D) split net asset value.

ANSWER: A

13. Mutual funds composed of stocks that have potential for very high growth, but may also be unproven, are called \_\_\_\_\_ funds.
- A) income
  - B) capital appreciation
  - C) specialty
  - D) dividend

ANSWER: B

14. Mutual funds composed of bonds that offer periodic coupon payments are \_\_\_\_\_ funds.
- A) income
  - B) specialty
  - C) dividend
  - D) growth

ANSWER: A

15. Mutual funds whose bonds have a \_\_\_\_\_ average time to maturity are \_\_\_\_\_ sensitive to interest rate fluctuations.
- A) longer; less
  - B) shorter; less
  - C) shorter; more
  - D) none of these

ANSWER: B

16. The net asset value of international stock mutual funds \_\_\_\_\_ as the dollar strengthens against foreign currencies. (Assume no change in the prices of foreign stocks.)
- A) increases
  - B) decreases
  - C) is unaffected
  - D) increases or decreases (depending on the dollar's degree of strength)

ANSWER: B