

Chapter 24

Securities Operations

1. Which of the following is *not* a service that is commonly performed by an investment banking firm?
 - A) commercial banking
 - B) origination
 - C) underwriting
 - D) distribution

ANSWER: A

2. Investment banking firms focus on _____ market services; brokerage firms focus on _____ market services.
 - A) primary; primary
 - B) secondary; primary
 - C) primary; secondary
 - D) secondary; secondary

ANSWER: C

3. The _____ regulates the issuance of securities.
 - A) Securities and Exchange Commission
 - B) National Association of Securities Dealers
 - C) Federal Reserve Board
 - D) Securities Investor Protection Corporation

ANSWER: A

4. All information relevant to the security, as well as the agreement between the issuer and the investment banking firm, must be provided in the:
 - A) origination.
 - B) registration statement.
 - C) best-efforts agreement.
 - D) none of these.

ANSWER: B

5. Research indicates that investment banking firms tend to:
 - A) overprice IPOs.
 - B) underprice IPOs.
 - C) price IPOs correctly.
 - D) do none of these.

ANSWER: B

6. The return to investors who purchase IPO shares at the IPO offer price are _____, and the returns to investors who purchase the shares after the IPO are generally _____.
- A) high; high
 - B) high; low
 - C) low; high
 - D) low; low

ANSWER: B

7. The _____ determines margin requirements on securities purchased.
- A) Securities and Exchange Commission
 - B) National Association of Securities Dealers
 - C) Federal Reserve Board
 - D) Securities Investor Protection Corporation

ANSWER: C

8. The _____ can liquidate failing brokerage firms.
- A) Securities and Exchange Commission
 - B) National Association of Securities Dealers
 - C) Federal Reserve Board
 - D) Securities Investor Protection Corporation

ANSWER: D

9. Which of the following is *not* a major function of the securities industry?
- A) brokerage
 - B) raising new capital
 - C) underwriting
 - D) decisions regarding open market operations

ANSWER: D

10. When investment banking firms raise capital for corporations, their primary role is as a(n):
- A) intermediary.
 - B) lender (creditor).
 - C) investor.
 - D) none of these.

ANSWER: A

11. The price of newly issued stock should be _____ the market price of the firm's outstanding stock.
- A) about the same as
 - B) much more than
 - C) much less than
 - D) much more than or much less than, depending on the amount of stock to be issued

ANSWER: A

12. A(n) _____ discloses relevant financial data on a firm issuing securities, and the provisions applicable to the security.
- A) SEC preferred disclosure form
 - B) 1040 disclosure form
 - C) shelf-registration
 - D) prospectus

ANSWER: D

13. Which of the following statements is incorrect?
- A) A private bond placement avoids the underwriting fee.
 - B) Private placements of stocks are more common than private placements of bonds.
 - C) The provisions of a privately placed bond issue can be tailored to the desires of the purchaser.
 - D) A possible disadvantage of a private placement is that the demand may not be as strong as for a publicly placed issue.

ANSWER: B

14. Competitive bidding by investment banking firms for underwriting the issue of new bonds is primarily used for:
- A) federal government bonds.
 - B) bonds issued by banks.
 - C) public utility bonds.
 - D) bonds issued by non-banking financial institutions.

ANSWER: C

15. The underwriting spread on newly issued bonds is normally _____ that on newly issued stock.
- A) less than
 - B) greater than
 - C) about the same as
 - D) less than (for newly issued preferred stock) but greater than (for newly issued common stock)

ANSWER: A

16. In a _____, a firm places its entire issue of new securities without the underwriting services of an investment banking firm.
- A) market placement
 - B) public placement
 - C) shelf-registration agreement
 - D) private placement

ANSWER: D