I. Multiple Choice

1. Marketable government securities consist of Treasury bonds, __ and __.
   A. U.S. saving bonds and federal funds
   B. Treasury notes and federal funds
   C. Treasury notes and U.S. saving bonds
   D. Treasury notes and Treasury bills

2. Among marketable government securities, the largest dollar volume is in the form of __.
   A. federal funds
   B. Treasury bills
   C. Treasury bonds
   D. Treasury notes

3. A one-year Treasury bill with a face value of $1,000 and a yield to mature of 9% sells for approximately __.
   A. $991
   B. $917
   C. $947
   D. $1,009

4. The yield on a discount basis of a six-month Treasury bill that has a $100 face value and sells for $96 is __.
   A. 6.5%
   B. 8.0%
   C. 9.5%
   D. 9.8%

5. Which one of the following best describes a reverse repurchase agreement (a reverse RP)?
   A. The repurchase of a high-yield debt by the issuing company.
   B. A reverse RP describes the position of the seller in a transaction where the seller sells government securities and simultaneously agrees to buy them back at a later date (typically the next day).
   C. The other side of a repo transaction.
   D. A transaction in which a bank offsets a long position in the federal funds market.

6. If an issuer has the right to pay off a bond before its maturity, the bond is __.
   A. callable
   B. repurchasable
   C. assumable
   D. convertible
7. Moody’s gives junk bonds a rating below ___.
   A. Aa  
   B. Baa  
   C. Aaa  
   D. A

8. Which of the following is not a major purchaser of corporate bonds?
   A. government pension funds  
   B. insurance companies  
   C. private pension funds  
   D. money market mutual funds

9. Which one of the following is not an accurate statement about revenue bonds?
   A. More often than not, revenue bonds will carry a higher interest rate than general obligation bonds because they are considered riskier.  
   B. The principal and interest on revenue bonds are paid back exclusively out of the receipts that the associated project generates.  
   C. Revenue bonds are a much larger component of the municipal bond market because the bulk of municipal funding is associated with funding specific projects.  
   D. Revenue bonds are issues to finance a specific project.

10. On the New York Stock Exchange, the role of maintaining orderly markets is carried out by ___.
    A. specialists  
    B. the SEC  
    C. brokers  
    D. dealers

II. Fill in the Blank
11. The role of financial markets is to __________________ the exchange of ______________ by bringing ___________ and _______________ together.
12. The price at which ______________ stand ready to buy is called the __________ price and the price at which they stand ready to sell is called the ___________ price. The difference between the __________ price and the __________ price is called the __________ which is the dealer’s reward for ________________.
13. _______________ are financial institutions that specialize in ___________ the securities of private corporations and the obligations of states and cities. They often band together to form a ______________ for the purpose of _________________.

14. The difference between brokers and dealers is that the former act only as ______________ and are compensated by charging a ______________ for filling the ______________ of their customers, whereas dealers ______________ and ______________ securities for their ______________ and are compensated by the ______________ between the ______________ price and the ______________ price.

15. Financial markets can be separated into primary markets and ______________ markets or into organized exchanges and ______________ markets or into capital markets and ______________ markets.

16. A market that is able to absorb large trading volume without causing wild gyrations in transaction prices is said to have ______________, ______________, and ______________. A market that lacks these characteristics is called a ______________ market.

17. Commodities markets in the U.S. started an experiment in 1992 called ______________ designed to conduct ______________ trading.

18. The ______________ and ______________ Comission was established in 1934 by an act of Congress to prevent ______________ and promote ______________.

19. According to the efficient markets hypothesis, the ______________ price of a security reflects ______________.