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 that 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 facilitate the exchange of financial assets by bringing buyers and sellers together.

12. The price at which dealers stand ready to buy is called the bid price and the price at which they stand ready to sell is called the asked price. The difference between the bid price and the asked price is called the bid-asked spread which is the dealer’s reward for facilitating trading/taking on risk.

13. Investment banks are financial institutions that specialize in underwriting the securities of private corporations and the obligations of states and cities. They often band together to form a syndicate for the purpose of minimizing/sharing risk.
14. The difference between brokers and dealers is that the former act only as agents and are compensated by charging a commission for filling the orders of their customers, whereas dealers buy and sell securities for their own accounts and are compensated by the spread between the bid price and the asked price.

15. Financial markets can be separated into primary markets and secondary markets or into organized exchanges and OTC markets or into capital markets and money markets.

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

17. SKIP.

18. The Securities and Exchange Commission was established in 1934 by an act of Congress to prevent fraud and promote fair/equitable markets.

19. According to the efficient markets hypothesis, the current price of a security reflects all public information.