Security Markets

True/False

1. Money markets exist to help reduce the opportunity cost of holding cash balances.
2. The majority of money market securities are low denomination, low risk investments designed to appeal to individual investors with excess cash.
3. Commercial paper is a short term obligation of the U.S. government issued to cover government budget deficits and to refinance maturing government debt.
4. Commercial paper, Treasury bills and banker’s acceptance rates are all quoted as discount yields.
5. Fed funds are short term unsecured loans while repos are short term secured loans.
6. Bond ratings use a classification system to give investors an idea of the amount of default rate risk associated with the bond issue.
7. Bonds rated below Baa by Moody's or BBB by S&P are junk bonds.
8. An unsecured bond that has no specific collateral other than the general creditworthiness of the issuing firm is called a debenture.
9. The market in which firms sell new securities to raise cash is called the secondary market.
10. The process of creating a secondary market for securities or contracts is termed brokerage.

Multiple Choice

1. One of the following is not an activity of a brokerage firm:
   a. Take order to buy or sell from clients
   b. Offer advice to buy or sell shares
   c. Buy shares for its own investment
   d. Charge commission for services provided to clients.

2. When a stock investor wants to buy or sell existing shares, it must deal with one of the following:
   A. Primary market
   B. Secondary market
   C. Commodity market
   D. Foreign exchange market
3. One of the following is not a reason for which some listed companies repurchase its own shares from the stock market:
   A. The regulator orders them to buy back their own shares when the stock market is in crisis
   B. The price of their shares are too low
   C. The companies use the shares bought to give bonuses to their directors or staff
   D. The companies may keep the shares they bought for a period of time and then resell them later at higher prices.

4. An example of a financial institution that is classified under “indirect finance” finance is:
   A. Commercial banks
   B. Securities companies
   C. Securities brokers
   D. Governmental financial institution

5. One of the following statements does not refer to the rights of a stockholder:
   A. To vote elect members of the board of directors to govern the company
   B. To receive present and past incomes earned from the company
   C. To become a CEO or president of the company
   D. Receive dividends declared by the company.

6. Which of the following can vote to increase, decrease or eliminate dividend payment in a listed commercial bank corporation?
   A. The National Bank of Cambodia (NBC) that regulates all commercial bank in Cambodia
   B. The board of directors of the banking corporation.
   C. The Securities and Exchange Commission of Cambodia (SECC)
   D. The Cambodia Securities Exchange (CSX) in which bank shares are traded.

7. The following regulator can authorize a company to issue IPOs:
   A. The Council of ministers of the government
   B. The securities and exchange commission of Cambodia (SECC)
   C. The Cambodian Securities Exchange I(CSX)
   D. The National Bank of Cambodia (NBC)

8. Which of the following market intermediary has the most diversified activities such as underwriting, dealing, broking and advising?
   A. Brokerage company
   B. Dealer of securities
   C. Financial advisor or consultant
   D. Securities company

9. When a company decides to issue a private placement of IPOs, it does not need an authorization from the Securities and Exchange Commission of Cambodia (SECC) when:
   A. It has less than thirty shareholders
   B. It has more than thirty shareholders
   C. It launches an advertisement of its issuance to inform and attract the public attention
   D. It offers a seminar on its issuance in a hotel and invites all the investing public to attend
Practice Questions

10. One of the following is not a reason for companies to directly issue and sell their own shares:
   A. They must find investors who are willing to buy their shares
   B. They need to raise a large amount of money
   C. They want to create a lot of jobs for their family members
   D. The SECC’s regulations are too detailed and difficult to understand.

11. Securities companies can perform the following functions:
   A. They can underwrite stock and bonds for the issuing companies that need capital
   B. They can assist companies to find finance for merger and acquisition
   C. They can assist companies to repurchase large amount of their own shares
   D. All of the above (a), (b) and (c) are correct statements

12. Stock “rights” are defined as:
   A. The right for all shareholders to vote to elect members of the board of directors.
   B. The right given to existing shareholders to buy new shares based on the number of shares of stock they own.
   C. The right to receive dividends when they are declared by the board of directors.
   D. The right to dismiss management when they perform very poorly for the company

13. Which of the following is a correct answer?
   A. IPO owners have the right to immediately sell shares in the Cambodian Stock Exchange
   B. After the IPOs are sold in the primary market, the SECC may not immediately allow the original owners to sell all their IPO shares in the Cambodia Stock Exchange.
   C. When shares are sold in the stock exchange, all proceed money goes to the original IPO issuer.
   D. All IPO share owners are guaranteed an immediate profit by the securities companies.

14. Which of the following describe the functions of a market maker in the stock exchange in some developed markets?
   A. The market maker sets price according to the supply and demand for a particular stock.
   B. A market maker must constantly adjust a stock’s price to meet the supply and demand for that stock.
   C. Presently, the computerized trading system is replacing the work of market makers in most stock exchanges in the world.
   D. All (a), (b) and (c) are correct answers to describe the role of market makers.

15. Which of the following are correct answers for stock quotations?
   A. Bid price is the price at which the dealer will buy the share of stock.
   B. Ask price is the price at which the dealer will sell the shares of stock.
   C. Spread is the difference between the bid price and the ask price.
   D. All the above (a), (b) and (c) are correct answers.

16. Which of the following correctly describes the liquidity of financial asset?
   A. Liquidity is the ability to convert a financial asset into cash at a market price.
   B. Real estate is a very liquid investment.
C. Fixed assets such as factory and equipment are liquid assets
D. Stocks from all issuing companies that are sold in the stock market equally.

17. The value of common stock today depends on
   A. The expected future holding period and the discount rate
   B. The expected future dividends and the capital gains
   C. The expected future dividends, capital gains and the discount rate.
   D. The expected future holding period and capital gains.

18. Which of the following securities intermediary can perform the most functions in the issuance and sales of securities in Cambodia?
   A. A broker
   B. A financial advisor
   C. A security company
   D. A dealer

19. One of the following correctly describe the main difference between a broker and dealer
   A. A broker buys and sells shares of stock for only their clients
   B. A dealer buys and sells shares for their clients and also their own company account
   C. A broker can buy sell shares of stock for their own company’s account
   D. All (a) and (b) are correct answers

20. How can an investor buy shares of stock without using a brokerage service?
   A. direct purchase program offered by issuing companies
   B. An investor can directly buy or sell shares from the Cambodian Stock Exchange
   C. A company’s dividend reinvestment program that allow investors to acquire shares
   D. Only (a) and (c) are correct answers.

21. The following are important factors to consider when selecting a broker
   A. Determine which services you need and which brokerage firms to use
   B. Find out whether you have the financial skills needed to make your own financial decision after you have learned from the training courses
   C. Select brokerage firm that offers relatively lower fees and better services.
   D. All (a), (b) and (c) are correct answer for selecting a broker.

22. When selecting a brokerage firms among similar firms, one of the following answer is correct:
   A. Seek recommendations from friends and colleagues
   B. Examine the investment experience and knowledge of the brokerage staff and advisors.
   C. Examine whether the brokerage firm specialize in research and advice they offer to clients.
   D. All (a), (b) and (c) are correct answer when selecting a broker.

23. One of the following statements is not an advantage for choosing a brokerage firm:
   A. You can have easy access to the firm’s offices
   B. You can have access to research reports and other needed investment information
Lecturer: Lim chhayada  

Practice Questions

C. The brokerage firm invites you to dinners and drinks.
D. You can receive your money after you sell the shares of stock.

24. One of the following is not a required financial statement:
   A. The balance sheet
   B. The income statement
   C. The annual or monthly bank’s statement for cash account
   D. The cash flow statement

25. Where can you find a company’s financial statement?
   A. At the website of the SECC
   B. At the website of the brokerage firms
   C. At the corporate website of the issuing company
   D. All the above (a), (b) and (c) are correct answers.

26. One of the following is not a measure of the earnings reported by a company:
   A. Gross profit margin
   B. Current and quick ratios
   C. Operating profit margin
   D. Net profit margin

27. Which of the following is correct in determining the number of shares of company:
   A. Authorized shares indicates the minimum number of shares the corporation can issue
   B. Shares outstanding represents the number of share that are held by the investors
   C. Both authorized and outstanding shares must be equal at any time
   D. It is possible that authorized share can be larger than outstanding shares.

28. In the valuation of the initial public offering (IPO), the following factors are important:
   A. The total ownership of the business
   B. The cash account available for investment of the issuing company
   C. The number of shares the company want to issue
   D. Only (a) and (c) are correct answers.

29. Two factors are important in determining the price of a stock:
   A. Dividends paid the company
   B. The amount of cash the company owns
   C. Future expected price of the stock
   D. Only (a) and (c) are correct factors to determine the price of a stock

30. Risk of stock investment decrease when
   A. Increase in uncertainty about a company’s profits
   B. Potential decline in stock value or loss of value
   C. General decline in a country’s economic activities
   D. Increase in investment confidence.
31. Which investment has little or no risk at all?
   A. Corporate Bonds
   B. Government securities
   C. Common stock
   D. Derivative or foreign exchange securities

32. For the purposes for which they are used, money market securities should have which of the following characteristics?
   I. Low trading costs
   II. Little price risk
   III. High rate of return
   IV. Life greater than one year
   A) I and III
   B) II and IV
   C) III and IV
   D) I and II
   E) I, II and III

33. Money market securities exhibit which of the following?
   I. Large denomination
   II. Maturity greater than one year
   III. Low default risk
   IV. Contractually determined cash flows
   A) I, II and III
   B) I, III and IV
   C) II, III and IV
   D) II and IV
   E) I, II, III and IV

34. A repo is in essence a collateralized?
   A) Banker’s acceptance
   B) Certificate of deposit
   C) Fed funds loan
   D) Commercial paper loan
   E) Eurodollar deposit

35. A short term unsecured promissory note issued by a company is?
   A) Commercial paper
   B) T-Bills
   C) Repurchase agreement
   D) Negotiable CD
   E) Banker's acceptance

36. A negotiable CD
   A) Is a bank issued transactions deposit
   B) Is a registered instrument
C) Is a bank issued time deposit
D) Has denominations ranging from $50,000 to $10 million
E) Pays discount interest

37. The most liquid of the money market securities are
A) Commercial paper
B) Banker's acceptances
C) T-Bills
D) Fed funds
E) Repurchase agreements

38. Common stocks typically have which of the following that bonds do not have:
I. Voting rights
II. Fixed cash flows
III. Set maturity date
IV. Tax deductibility of cash flows to investors
A) I only
B) I, II and IV only
C) II, III and IV only
D) IV only
E) I, II, III and IV

39. Select the only one correct sentence form the following:
A. Private placement are shares that can be sold to all investors in Cambodia
B. Private issuance of stock must follow complicated rules and regulation of the SECC
C. Private placement are shares issued and sold to more than one hundred investors
D. Stock issued under private placement cannot be resold in the Cambodian stock exchange.

40. One of the following is not a reason for companies to become bankrupt:
A. They have too much short-term and long term debts
B. They cannot repay their loans to borrowers
C. They operate in a fast-growing and profitable industry
D. They face an expected large lawsuit settlement.