



FIN 366: INVESTMENTS

CRITICAL THINKING & CONCEPTUAL QUESTIONS

Chapter 1:

1. You put \$10 in a slot machine and immediately win \$300. Why is this *not* considered an investment?
2. You pay \$300 for a stock that falls in value to \$10. Why is this considered an investment?
3. Given the material wealth of a society is defined by *real* assets, why do we care to study *financial* assets?
4. A manager wants to grow their own power at the expense of others within their organization. What is this an example of? How might this be prevented?
5. How do inaccurate or fraudulent financial statements break down the informational and risk-allocation roles of financial assets?
6. How does compensating managers of a firm with the firm's stock help to mitigate the agency problem?
7. Why can large institutional investors be more effective monitors of firms than individual investors?
8. A friend says "You should purchase shares of FLSL Corp. Last week, they announced an exclusive \$800 billion deal with the US government to develop an encrypted communications network. Their share price is going to rise as a result!" How would you critique your friend's claim?
9. You have a friend that wants to sell you a 99-year-old car. They tell you "This antique is worth \$36,000 today, but it's going to be 100-years-old next year. It will probably double in price at that time!" Do you agree that the price of the car would increase significantly when it turns 100 next year?
10. What causes stock prices to move through time? How do stock prices "react" to news about a company? Why do they "react" quickly to news?
11. You first decide you'd like 20% of your portfolio to be in fixed income, then you choose a mix of government and corporate securities to hold. What type of approach to investing is this?

12. You decide to buy \$650 of Lyft shares, \$249 of Tesla stock, \$300 of government bonds, and \$250 of a diversified corporate bond portfolio. What type of approach to investing is this?
13. What two components do investors balance when they develop their portfolio using a top-down approach?
14. Why might a younger person hold riskier securities than an older person?
15. What is securitization, and how did it contribute to the financial crisis?
16. Is securitization inherently a bad thing?
17. What are mortgage backed securities and why would an investor in a mortgage backed security consider it an “asset”?
18. What are NINJA loans and subprime mortgages?
19. What are Fannie Mae and Freddie Mac?
20. What are some of the reasons stock markets can be at or near all-time highs while unemployment is high and GDP is low?

