

THINK CRITICALLY

1. How is financial risk related to financial return?
2. What is the difference between a futures contract and an options contract?
3. What is the difference between a primary and a secondary offering?
4. The uncertainty that an expected profit will not be achieved is a financial _____.
 - a. market
 - b. return
 - c. risk
 - d. investment
5. True or False? _____ The term of an investment is the interest rate to be paid.
6. A typical way for businesses to obtain financing without offering ownership is to _____ money from financial institutions.
7. A _____ exists to facilitate the exchange of things of value between buyers and sellers.
 - a. stock
 - b. financial market
 - c. bank
 - d. none of the above
8. True or False? _____ Stock exchanges need to have physical locations where representatives of buyers and sellers actually meet to negotiate for the purchase and sale of stocks.
9. What two things must be balanced when selecting an investment?
 - a. cost and benefit
 - b. risk and return
 - c. income and expenses
 - d. supply and demand

TEAMWORK

Discuss in pairs or small groups and then write your conclusions below.

10. With your team, consider the following questions: Under what circumstances might an investor choose to assume a greater financial risk for a higher possible return? When is it better to choose a lower risk but a lower return?