Module M1.1: Comparing Private vs. Public Investments and Markets

Question 1

Relative to an investment in a mature company's common stock, a private investment will *most likely* result in the investor having:

A) **less liquidity. ✓**

B) standardized terms.

C) established benchmarks.

Explanation

A private investment (relative to a public investment) will have far less liquidity, as there will not be an active market or exchange available for trading. In addition, these investments tend to have more restrictions on liquidation. The terms are likely to be customized as opposed to standardized (more common with public investments), and benchmarks are harder to identify.

(Module M1.1, LOS M1.a)

Question 2

The J-curve effect identified with successful private investments reflects:

A) more committed capital later in the investment life cycle.

B) more distributed capital earlier in the investment life cycle.

C) **greater cash outflows early, and greater cash inflows later in an investment's life cycle. ✓**

Explanation

The J-curve effect reflects the reality that most successful private investments require significant committed capital (cash outflows) earlier in the life cycle and generate greater distributed capital (cash inflows) later in the life cycle.

(Module M1.1, LOS M1.a)