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| 1. The form of economics most relevant to managerial decision-making within the firm is:

|  |  |  |
| --- | --- | --- |
|   | a.  | macroeconomics |
|   | b.  | welfare economics |
|   | c.  | free-enterprise economics |
|   | d.  | microeconomics |
|   | e.  | none of the above |

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Easy |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | The Decision-Making Model |
| *KEYWORDS:* | BLOOM’S: Knowledge |
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| 2. If one defines incremental cost as the change in total cost resulting from a decision, and incremental revenue as the change in total revenue resulting from a decision, any business decision is profitable if:

|  |  |  |
| --- | --- | --- |
|   | a.  | it increases revenue more than costs or reduces costs more than revenue |
|   | b.  | it decreases some costs more than it increases others (assuming revenues remain constant) |
|   | c.  | it increases some revenues more than it decreases others (assuming costs remain constant) |
|   | d.  | all of the above |
|   | e.  | b and c only |

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| --- | --- |
| *ANSWER:* | d |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Easy |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | Implications of Shareholder Wealth Maximization |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 3. In the shareholder wealth maximization model, the value of a firm's stock is equal to the present value of all expected future \_\_\_\_ discounted at the stockholders' required rate of return.

|  |  |  |
| --- | --- | --- |
|   | a.  | profits (cash flows) |
|   | b.  | revenues |
|   | c.  | outlays |
|   | d.  | costs |
|   | e.  | investments |

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| --- | --- |
| *ANSWER:* | a |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | Implications of Shareholder Wealth Maximization |
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| 4. Which of the following statements concerning the shareholder wealth maximization model is (are) true?

|  |  |  |
| --- | --- | --- |
|   | a.  | The timing of future profits is explicitly considered. |
|   | b.  | The model provides a conceptual basis for evaluating differential levels of risk. |
|   | c.  | The model is only valid for dividend-paying firms. |
|   | d.  | a and b |
|   | e.  | a, b, and c |

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | Objective of the Firm |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 5. According to the profit-maximization goal, the firm should attempt to maximize short-run profits since there is too much uncertainty associated with long-run profits.

|  |  |  |
| --- | --- | --- |
|   | a.  | true |
|   | b.  | false |

|  |  |
| --- | --- |
| *ANSWER:* | b |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | Implications of Shareholder Wealth Maximization |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 6. According to the innovation theory of profit, above-normal profits are necessary to compensate the owners of the firm for the risk they assume when making their investments.

|  |  |  |
| --- | --- | --- |
|   | a.  | true |
|   | b.  | false |

|  |  |
| --- | --- |
| *ANSWER:* | b |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Easy |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | The Role of Profits |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 7. According to the managerial efficiency theory of profit, above-normal profits can arise because of high-quality managerial skills.

|  |  |  |
| --- | --- | --- |
|   | a.  | true |
|   | b.  | false |

|  |  |
| --- | --- |
| *ANSWER:* | a |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Easy |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | The Role of Profits |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 8. Which of the following (if any) is not a factor affecting the profit performance of firms:

|  |  |  |
| --- | --- | --- |
|   | a.  | differential risk |
|   | b.  | innovation |
|   | c.  | managerial skills |
|   | d.  | existence of monopoly power |
|   | e.  | all of the above are factors |

|  |  |
| --- | --- |
| *ANSWER:* | e |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | The Role of Profits |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 9. Agency problems and costs are incurred whenever the owners of a firm delegate decision-making authority to management.

|  |  |  |
| --- | --- | --- |
|   | a.  | true |
|   | b.  | false |

|  |  |
| --- | --- |
| *ANSWER:* | a |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | Separation of Ownership and Control: The Principal-Agent Problem |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 10. Economic profit is defined as the difference between revenue and \_\_\_\_.

|  |  |  |
| --- | --- | --- |
|   | a.  | explicit cost |
|   | b.  | total economic cost |
|   | c.  | implicit cost |
|   | d.  | shareholder wealth |
|   | e.  | none of the above |

|  |  |
| --- | --- |
| *ANSWER:* | b |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | The Decision-Making Model |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 11. Managerial economics seeks to accomplish all of these goals EXCEPT:

|  |  |  |
| --- | --- | --- |
|   | a.  | identify the alternatives |
|   | b.  | select the choice that accomplishes the objective most efficiently |
|   | c.  | take into account the opportunities |
|   | d.  | take into account the likely actions & reactions of rival decision makers |
|   | e.  | all of the above |

|  |  |
| --- | --- |
| *ANSWER:* | c |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Reflective Thinking - BPROG: Analysis |
| *TOPICS:* | What is Managerial Economics? |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 12. Various executive compensation plans have been employed to motivate managers to make decisions that maximize shareholder wealth. These include:

|  |  |  |
| --- | --- | --- |
|   | a.  | cash bonuses based on length of service with the firm |
|   | b.  | bonuses for resisting hostile takeovers |
|   | c.  | requiring officers to own stock in the company |
|   | d.  | large corporate staffs |
|   | e.  | a, b, and c only |

|  |  |
| --- | --- |
| *ANSWER:* | c |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | Separation of Ownership and Control: The Principal-Agent Problem |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 13. The Saturn Corporation (once a division of GM) was permanently closed in 2009.  What went wrong with Saturn?

|  |  |  |
| --- | --- | --- |
|   | a.  | Saturn’s cars sold at prices higher than rivals Honda or Toyota, so they could not sell many cars. |
|   | b.  | Saturn sold cars below the prices of Honda or Toyota, earning a low 3% rate of return. |
|   | c.  | Saturn found that young buyers of Saturn automobiles were very loyal to Saturn and GM. |
|   | d.  | Saturn implemented a change management view that helped make first time Saturn purchasers trade up to Buick or Cadillac. |
|   | e.  | all of the above |

|  |  |
| --- | --- |
| *ANSWER:* | b |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Easy |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | The Decision-Making Model |
| *KEYWORDS:* | BLOOM’S: Knowledge |
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| 14. The common factors that give rise to all principal-agent problems include the

|  |  |  |
| --- | --- | --- |
|   | a.  | unobservability of some manager-agent action |
|   | b.  | presence of random disturbances in team production |
|   | c.  | the greater number of agents relative to the number of principals |
|   | d.  | a and b only |
|   | e.  | none of the above |

|  |  |
| --- | --- |
| *ANSWER:* | d |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | Separation of Ownership and Control: The Principal-Agent Problem |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 15. A Real Option Value is:

|  |  |  |
| --- | --- | --- |
|   | a.  | An option that been deflated by the cost of living index makes it a “real” option. |
|   | b.  | An opportunity cost of capital. |
|   | c.  | An opportunity to implement cost savings or revenue expansion in a flexible business plan. |
|   | d.  | An objective function and a decision rule that comes from it. |
|   | e.  | Both a and b. |

|  |  |
| --- | --- |
| *ANSWER:* | c |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Reflective Thinking - BPROG: Analysis |
| *TOPICS:* | Implications of Shareholder Wealth Maximization |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 16. Which of the following will increase (V0), the shareholder wealth maximization model of the firm:V0·(shares outstanding) = Σ∞t=1 (π t ) / (1+ke)t + Real Option Value.

|  |  |  |
| --- | --- | --- |
|   | a.  | Decrease the required rate of return (ke). |
|   | b.  | Decrease the stream of profits (πt). |
|   | c.  | Decrease the number of periods from ∞ to 10 periods. |
|   | d.  | Decrease the real option value. |
|   | e.  | All of the above. |

|  |  |
| --- | --- |
| *ANSWER:* | a |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Reflective Thinking - BPROG: Analysis |
| *TOPICS:* | Objective of the Firm |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 17. The primary objective of a for-profit firm is to \_\_\_\_\_\_\_\_\_\_\_.

|  |  |  |
| --- | --- | --- |
|   | a.  | maximize agency costs |
|   | b.  | minimize average cost |
|   | c.  | maximize total revenue |
|   | d.  | set output where total revenue equals total cost |
|   | e.  | maximize shareholder value |

|  |  |
| --- | --- |
| *ANSWER:* | e |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Reflective Thinking - BPROG: Analysis |
| *TOPICS:* | Implications of Shareholder Wealth Maximization |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 18. Possible goals of Not-For-Profit (NFP) enterprises include all of the following EXCEPT:

|  |  |  |
| --- | --- | --- |
|   | a.  | maximize total costs |
|   | b.  | maximize output, subject to a breakeven constraint |
|   | c.  | maximize the happiness of the administrators of the NFP enterprise |
|   | d.  | maximize the utility of the contributors |
|   | e.  | a and c |

|  |  |
| --- | --- |
| *ANSWER:* | a |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Reflective Thinking - BPROG: Analysis |
| *TOPICS:* | Implications of Shareholder Wealth Maximization |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 19. The flat-screen plasma TVs are selling extremely well.  The originators of this technology are earning higher profits.  What theory of profit best reflects the performance of the plasma screen makers?

|  |  |  |
| --- | --- | --- |
|   | a.  | risk-bearing theory of profit |
|   | b.  | dynamic equilibrium theory of profit |
|   | c.  | innovation theory of profit |
|   | d.  | managerial efficiency theory of profit |
|   | e.  | stochastic optimization theory of profit |

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| *ANSWER:* | c |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Easy |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | The Role of Profits |
| *KEYWORDS:* | BLOOM’S: Knowledge |
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| 20. To reduce Agency problems, executive compensation should be designed to

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|   | a.  | be paid baased on quarterly sales |
|   | b.  | create incentives so that managers act like owners of the firm |
|   | c.  | ​avoid making the executives own shares in the company |
|   | d.  | ​be an increasing function of the firm's expenses |
|   | e.  | ​all of the above |

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| *ANSWER:* | b |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Reflective Thinking - BPROG: Analysis |
| *TOPICS:* | Separation of Ownership and Control: The Principal-Agent Problem |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 21. Recently, the American Medical Association changed its recommendations on the frequency of pap-smear exams for women.  The new frequency recommendation was designed to address the family histories of the patients.  The optimal frequency should be where the marginal benefit of an additional pap-test:

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|   | a.  | equals zero. |
|   | b.  | is greater than the marginal cost of the test |
|   | c.  | is lower than the marginal cost of an additional test |
|   | d.  | equals the marginal cost of the test |
|   | e.  | both a and b. |

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| --- | --- |
| *ANSWER:* | d |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Easy |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | Implications of Shareholder Wealth Maximization |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 22. Shirking of one’s duties is often encountered in team production settings because

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|   | a.  | few individuals are well-intentioned |
|   | b.  | teamwork is recognized as less significant than individual performance |
|   | c.  | teammates face a dilemma posed by a dominant strategy to shirk |
|   | d.  | reputation effects dominate in long-term teams |
|   | e.  | teamwork can be less than the sum of the individual parts |

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| *ANSWER:* | c |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Analytic |
| *TOPICS:* | The Decision-Making Model |
| *KEYWORDS:* | BLOOM’S: Knowledge |
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| 23. The moral hazard in team production arises from

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|   | a.  | poorly designed team membership |
|   | b.  | lack of proper assignment of individual tasks |
|   | c.  | disorganization in groups |
|   | d.  | a conflict between tactically best interest and one’s duty |
|   | e.  | insufficient experience |

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| *ANSWER:* | d |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Reflective Thinking - BPROG: Analysis |
| *TOPICS:* | The Decision-Making Model |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 24. Which of the following types of firms should expect a higher rate of return?

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|   | a.  | ​an auto dealership |
|   | b.  | ​a biotech pharmaceutical firm |
|   | c.  | ​a manufacturer of screws and bolts |
|   | d.  | ​a paper products firm |
|   | e.  | ​all of the above |

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| --- | --- |
| *ANSWER:* | b |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Reflective Thinking - BPROG: Analysis |
| *TOPICS:* | The Role of Profits |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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| 25. ​Managers should concentrate on maximizing shareholder value alone if which of the following conditions are met?

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|   | a.  | ​complete markets |
|   | b.  | ​no significant asymmetric information |
|   | c.  | ​known recontracting costs |
|   | d.  | ​all of the above |
|   | e.  | ​none of the above |

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| --- | --- |
| *ANSWER:* | d |
| *POINTS:* | 1 |
| *DIFFICULTY:* | Moderate |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *NATIONAL STANDARDS:* | United States - BPROG: Reflective Thinking - BPROG: Analysis |
| *TOPICS:* | Implications of Shareholder Wealth Maximization |
| *KEYWORDS:* | BLOOM’S: Comprehension |
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