Chapter 01 Introduction to Financial Management Answer Key

**Multiple Choice Questions**

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| 1. | The increase in oil production in the United States characterizes which of the following key financial concepts presented in this book?

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| A.  | the Rule of 72 |

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| B.  | time value of money |

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| --- | --- |
| C.  | risk and return |

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| --- | --- |
| **D.**  | capital budgeting |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-09 Explain the business ramifications of the decline in the price of oil and Chinas economic slowdown.Topic: Historical performance* |

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| 2. | Which of the following is not an impact of the slowdown occurring in China’s economy?

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| A.  | lower demand in materials such as steel, iron ore, and copper |

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| B.  | real estate market declining in Sydney, Australia |

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| **C.**  | money going out of Manhattan, New York |

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| D.  | falling community prices |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-09 Explain the business ramifications of the decline in the price of oil and Chinas economic slowdown.Topic: Historical performance* |

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| 3. | Not all cash a company generates will be returned to the investors. Which of the following will *NOT* reduce the amount of capital returned to the investors?

|  |  |
| --- | --- |
| A.  | retained earnings |

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| B.  | taxes |

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| --- | --- |
| **C.**  | dividends |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Dividends and payout policy* |

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| 4. | This subarea of finance involves methods and techniques to make appropriate decisions about what kinds of securities to own, which firms' securities to buy, and how to be paid back in the form that the investor wishes.

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| A.  | real markets |

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| **B.**  | investments |

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| --- | --- |
| C.  | financial management |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Introduction to corporate finance* |

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| 5. | This subarea of finance looks at firm decisions in acquiring and utilizing cash received from investors or from retained earnings.

|  |  |
| --- | --- |
| A.  | investments |

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| --- | --- |
| **B.**  | financial management |

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| --- | --- |
| C.  | treasury management |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Introduction to corporate finance* |

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| 6. | Financial management involves decisions about which of the following?

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| --- | --- |
| A.  | which projects to fund |

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| --- | --- |
| B.  | how to minimize taxation |

|  |  |
| --- | --- |
| C.  | what type of capital should be raised |

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| **D.**  | all of these choices are correct. |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Financial management decisions* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. | This subarea of finance helps facilitate the capital flows between investors and companies.

|  |  |
| --- | --- |
| A.  | investments |

|  |  |
| --- | --- |
| B.  | financial management |

|  |  |
| --- | --- |
| C.  | treasury management |

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| --- | --- |
| **D.**  | financial institutions and markets |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Introduction to corporate finance* |

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| 8. | This subarea of finance is important for adapting to the global economy.

|  |  |
| --- | --- |
| A.  | investments |

|  |  |
| --- | --- |
| B.  | financial management |

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| --- | --- |
| **C.**  | international finance |

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| --- | --- |
| D.  | financial institutions and markets |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Introduction to corporate finance* |

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| 9. | A potential future negative impact to value and/or cash flows is often discussed in terms of probability of loss and the expected magnitude of the loss. This is called

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| A.  | options. |

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| --- | --- |
| B.  | standard deviation. |

|  |  |
| --- | --- |
| C.  | coefficient of variation. |

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| --- | --- |
| **D.**  | risk.  |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Risks and returns* |

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| 10. | This is a general term for securities like stocks, bonds, and other assets that represent ownership in a cash flow.

|  |  |
| --- | --- |
| A.  | investment |

|  |  |
| --- | --- |
| **B.**  | financial asset |

|  |  |
| --- | --- |
| C.  | real asset |

|  |  |
| --- | --- |
| D.  | financial markets |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Introduction to corporate finance* |

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| 11. | Which of the following is defined as a group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations?

|  |  |
| --- | --- |
| A.  | investments |

|  |  |
| --- | --- |
| **B.**  | asset classes |

|  |  |
| --- | --- |
| C.  | market instruments |

|  |  |
| --- | --- |
| D.  | financial markets |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. | The most commonly accepted groups of asset classes include all of the following except

|  |  |
| --- | --- |
| A.  | stocks. |

|  |  |
| --- | --- |
| B.  | bonds. |

|  |  |
| --- | --- |
| **C.**  | machinery and equipment. |

|  |  |
| --- | --- |
| D.  | real estate. |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. | Which of the following is the firm's highest-level financial manager?

|  |  |
| --- | --- |
| A.  | chief executive officer |

|  |  |
| --- | --- |
| **B.**  | chief financial officer |

|  |  |
| --- | --- |
| C.  | board of directors |

|  |  |
| --- | --- |
| D.  | corporate governance |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-02 Show how finance is at the heart of sound business decisions.Topic: Management organization and roles* |

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| 14. | Which of the following managers would *NOT* use finance?

|  |  |
| --- | --- |
| A.  | operational managers |

|  |  |
| --- | --- |
| B.  | marketing managers |

|  |  |
| --- | --- |
| C.  | human resource managers |

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| --- | --- |
| **D.**  | all of these choices are correct. |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-02 Show how finance is at the heart of sound business decisions.Topic: Management organization and roles* |

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| 15. | Which of the following personal decisions is *NOT* impacted by finance?

|  |  |
| --- | --- |
| A.  | borrowing money to purchase cars or homes |

|  |  |
| --- | --- |
| B.  | making credit card payments |

|  |  |
| --- | --- |
| C.  | making retirement decisions |

|  |  |
| --- | --- |
| **D.**  | all of these choices are correct. |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-03 Learn the financial principles that govern your personal decisions.Topic: Introduction to corporate finance* |

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| 16. | When determining a form of business organization, all of the following are considered *EXCEPT*

|  |  |
| --- | --- |
| A.  | who owns the firm. |

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| --- | --- |
| B.  | the owners' risks. |

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| --- | --- |
| C.  | the tax ramifications. |

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| --- | --- |
| **D.**  | the physical location of the business.  |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| 17. | This type of business organization is relatively easy to start, and it is subject to much lighter regulatory and paperwork burden than other business forms.

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| --- | --- |
| **A.**  | sole proprietorship |

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| --- | --- |
| B.  | partnership |

|  |  |
| --- | --- |
| C.  | corporation |

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| --- | --- |
| D.  | hybrid organization |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. | This type of business organization is entirely legally independent from its owners.

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | partnership |

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| --- | --- |
| **C.**  | public corporations |

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| --- | --- |
| D.  | hybrid organizations |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. | Which of the following is *NOT* considered a hybrid organization?

|  |  |
| --- | --- |
| A.  | S corporation |

|  |  |
| --- | --- |
| B.  | limited liability partnership |

|  |  |
| --- | --- |
| C.  | limited liability company |

|  |  |
| --- | --- |
| D.  | limited partnership |

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| --- | --- |
| **E.**  | all of these choices are correct. |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| 20. | The practice generally known as double taxation is due to

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| --- | --- |
| A.  | shareholders' dividends being taxed at both the federal and state levels. |

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| --- | --- |
| B.  | corporate income being taxed at both the federal and state levels. |

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| --- | --- |
| C.  | interest on shareholders' dividends being taxed as income. |

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| --- | --- |
| **D.**  | corporate incomes being taxed at the corporate level, then again at the shareholder level when corporate profits are paid out as dividends.  |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 2 IntermediateLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. | As individual legal entities, corporations assume liability for their own debts, so the shareholders hold

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| --- | --- |
| **A.**  | only limited liability. |

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| --- | --- |
| B.  | unlimited liability. |

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| --- | --- |
| C.  | shared liability. |

|  |  |
| --- | --- |
| D.  | joint liability.  |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| 22. | In order for an angel investor or venture capitalist to exchange capital for ownership in a business that is a sole proprietorship, which of these must happen?

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| A.  | The business must be re-formed as a partnership. |

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| --- | --- |
| B.  | The owner must give up some control. |

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| --- | --- |
| C.  | The owner must co sign on all loans. |

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| --- | --- |
| **D.**  | Both the business must be re-formed as a partnership and the owner must give up some control. |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| 23. | For corporations, maximizing the value of owner's equity can also be stated as

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| --- | --- |
| A.  | maximizing retained earnings. |

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| --- | --- |
| B.  | maximizing earnings per share. |

|  |  |
| --- | --- |
| C.  | maximizing net income. |

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| --- | --- |
| **D.**  | maximizing the stock price.  |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-05 Distinguish among appropriate and inappropriate goals for financial managers.Topic: Goal of financial management* |

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| 24. | A metaphor used to illustrate how an individual pursuing his own interests also tends to promote the good of the community.

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| --- | --- |
| A.  | agency theory |

|  |  |
| --- | --- |
| B.  | angel investor |

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| --- | --- |
| **C.**  | invisible hand |

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| --- | --- |
| D.  | perks or perquisites |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 2 IntermediateLearning Goal: 01-05 Distinguish among appropriate and inappropriate goals for financial managers.Topic: Goal of financial management* |

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| 25. | This should be the primary objective of a firm as it may actually be the most beneficial for society in the long run.

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| --- | --- |
| A.  | minimizing layoffs |

|  |  |
| --- | --- |
| B.  | maximizing market share |

|  |  |
| --- | --- |
| C.  | minimizing costs |

|  |  |
| --- | --- |
| **D.**  | maximizing shareholder value |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 2 IntermediateLearning Goal: 01-05 Distinguish among appropriate and inappropriate goals for financial managers.Topic: Goal of financial management* |

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| 26. | Nonwage compensation that might actually enhance owner value, in that such items may boost managers' productivity.

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| --- | --- |
| A.  | agency theory |

|  |  |
| --- | --- |
| B.  | angel investor |

|  |  |
| --- | --- |
| C.  | invisible hand |

|  |  |
| --- | --- |
| **D.**  | perks or perquisites |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Agency costs and problems* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | Which of these are *NOT* basic approaches to minimizing the agency problem?

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| --- | --- |
| A.  | ignore the conflict of interest |

|  |  |
| --- | --- |
| B.  | monitor managers' actions |

|  |  |
| --- | --- |
| C.  | align managers' personal interest with those of the owners by making the managers owners |

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| --- | --- |
| **D.**  | all of these choices are correct. |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 2 IntermediateLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Agency costs and problems* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. | Which of the following is an example of aligning managers' personal interests with those of the owners?

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| --- | --- |
| A.  | allow the managers to have as many perks as they request |

|  |  |
| --- | --- |
| B.  | pay the managers high salaries |

|  |  |
| --- | --- |
| **C.**  | offer the managers an equity stake in the firm |

|  |  |
| --- | --- |
| D.  | trust the managers' actions as they will always act in the owners' best interest |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 2 IntermediateLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Agency costs and problems* |

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| 29. | This is the set of laws, policies, incentives, and monitors designed to handle the issues arising from the separation of ownership and control.

|  |  |
| --- | --- |
| A.  | agency theory |

|  |  |
| --- | --- |
| **B.**  | corporate governance |

|  |  |
| --- | --- |
| C.  | defined benefit plan |

|  |  |
| --- | --- |
| D.  | invisible hand |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Ethics, governance, and regulation* |

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| 30. | This group is elected by stockholders to oversee management in a corporation.

|  |  |
| --- | --- |
| A.  | chief counselors |

|  |  |
| --- | --- |
| B.  | chief executives |

|  |  |
| --- | --- |
| **C.**  | board of directors |

|  |  |
| --- | --- |
| D.  | auditors |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Management organization and roles* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. | These individuals examine the firm's accounting systems and comment on whether financial statements fairly represent the firm's financial position.

|  |  |
| --- | --- |
| A.  | accounting departments |

|  |  |
| --- | --- |
| B.  | chief financial officers |

|  |  |
| --- | --- |
| C.  | board of directors |

|  |  |
| --- | --- |
| **D.**  | auditors |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Introduction to corporate finance* |

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| 32. | These individuals follow a firm, conduct their own evaluations of the company's business activities, and report to the investment community.

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| --- | --- |
| A.  | auditors |

|  |  |
| --- | --- |
| **B.**  | investment analysts |

|  |  |
| --- | --- |
| C.  | investment bankers |

|  |  |
| --- | --- |
| D.  | credit analysts |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 2 IntermediateLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. | These individuals help firms access capital markets and advise managers about how to interact with those capital markets.

|  |  |
| --- | --- |
| A.  | auditors |

|  |  |
| --- | --- |
| B.  | investment analysts |

|  |  |
| --- | --- |
| **C.**  | investment bankers |

|  |  |
| --- | --- |
| D.  | credit analysts |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 2 IntermediateLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. | These individuals examine a firm's financial strength for its debt holders.

|  |  |
| --- | --- |
| A.  | auditors |

|  |  |
| --- | --- |
| B.  | investment analysts |

|  |  |
| --- | --- |
| C.  | investment bankers |

|  |  |
| --- | --- |
| **D.**  | credit analysts |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 2 IntermediateLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. | Which of the following is legal duty between two parties where one party must act in the interest of the other party?

|  |  |
| --- | --- |
| A.  | agency theory |

|  |  |
| --- | --- |
| B.  | angel investor |

|  |  |
| --- | --- |
| **C.**  | fiduciary |

|  |  |
| --- | --- |
| D.  | investment banker |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 2 IntermediateLearning Goal: 01-07 Discuss how ethical decision making is part of the study of financial management.Topic: Agency costs and problems* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 36. | Which of the following can create ethical dilemmas between corporate managers and stockholders?

|  |  |
| --- | --- |
| **A.**  | agency relationship |

|  |  |
| --- | --- |
| B.  | auditors |

|  |  |
| --- | --- |
| C.  | boards of directors |

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| --- | --- |
| D.  | venture capitalist |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 2 IntermediateLearning Goal: 01-07 Discuss how ethical decision making is part of the study of financial management.Topic: Agency costs and problems* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. | Individuals who provide small amounts of capital and expert business advice to small firms in exchange for an ownership stake in the firm are referred to as

|  |  |
| --- | --- |
| A.  | institutional investors. |

|  |  |
| --- | --- |
| B.  | corporate investors. |

|  |  |
| --- | --- |
| **C.**  | angel investors. |

|  |  |
| --- | --- |
| D.  | capital investors.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38. | The opportunity to buy stock at a fixed price over a specific period of time is referred to as

|  |  |
| --- | --- |
| A.  | stock opportunities. |

|  |  |
| --- | --- |
| **B.**  | stock options. |

|  |  |
| --- | --- |
| C.  | real assets. |

|  |  |
| --- | --- |
| D.  | restricted stock.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Options* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. | The portion of a company's profits that are kept by the company rather than distributed to the stockholders as cash dividends is referred to as

|  |  |
| --- | --- |
| A.  | restricted earnings. |

|  |  |
| --- | --- |
| B.  | venture capital. |

|  |  |
| --- | --- |
| **C.**  | retained earnings. |

|  |  |
| --- | --- |
| D.  | institutional investment.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Statement of retained earnings* |

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| --- | --- | --- | --- | --- | --- | --- | --- |
| 40. | An employee stock option plan is

|  |  |
| --- | --- |
| A.  | a perk usually only given to the board of directors as compensation. |

|  |  |
| --- | --- |
| B.  | a plan that only partnerships can use to defer compensation to partners. |

|  |  |
| --- | --- |
| **C.**  | a way to align the interests of employees with those of the owners. |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Employee stock options* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. | Outside parties that monitor the firm include all of the following *EXCEPT*

|  |  |
| --- | --- |
| A.  | credit agencies. |

|  |  |
| --- | --- |
| **B.**  | the New York Stock Exchange. |

|  |  |
| --- | --- |
| C.  | analysts. |

|  |  |
| --- | --- |
| D.  | bankers.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Agency costs and problems* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. | Which of the following is *NOT* a function of the board of directors?

|  |  |
| --- | --- |
| A.  | hire the CEO |

|  |  |
| --- | --- |
| B.  | evaluate the CEO |

|  |  |
| --- | --- |
| C.  | design compensation contracts for the CEO |

|  |  |
| --- | --- |
| **D.**  | provide reports to the auditors |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Management organization and roles* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. | The overall goal of the financial manager is to

|  |  |
| --- | --- |
| A.  | minimize total costs. |

|  |  |
| --- | --- |
| B.  | maximize net income. |

|  |  |
| --- | --- |
| C.  | maximize earnings per share. |

|  |  |
| --- | --- |
| **D.**  | maximize shareholder wealth.  |

 |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Goal of financial management* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. | Maximizing owners' equity value means carefully considering all of the following *EXCEPT*

|  |  |
| --- | --- |
| A.  | how to best bring additional funds into the firm. |

|  |  |
| --- | --- |
| B.  | which projects to invest in. |

|  |  |
| --- | --- |
| **C.**  | how best to increase the firm's risk. |

|  |  |
| --- | --- |
| D.  | how best to return the profits from those projects to the owners over time.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Goal of financial management* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. | The agency relationship in corporate finance occurs

|  |  |
| --- | --- |
| **A.**  | when the shareholders hire a manager to run their company. |

|  |  |
| --- | --- |
| B.  | when the corporate hires an advertising agency to market their new product or service. |

|  |  |
| --- | --- |
| C.  | when the board of directors are elected to staggered terms. |

|  |  |
| --- | --- |
| D.  | when the board of directors oversee the CEO.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Agency costs and problems* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. | The most common type of business in the United States is the

|  |  |
| --- | --- |
| A.  | corporation. |

|  |  |
| --- | --- |
| B.  | partnership. |

|  |  |
| --- | --- |
| **C.**  | sole proprietorship. |

|  |  |
| --- | --- |
| D.  | hybrid organization such as a limited liability company.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 47. | The biggest disadvantage of the sole proprietorship is

|  |  |
| --- | --- |
| **A.**  | unlimited liability. |

|  |  |
| --- | --- |
| B.  | double taxation. |

|  |  |
| --- | --- |
| C.  | limited access to capital. |

|  |  |
| --- | --- |
| D.  | total control.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 48. | Which of the following statements is incorrect?

|  |  |
| --- | --- |
| A.  | Sole proprietorships are subject to less regulation. |

|  |  |
| --- | --- |
| B.  | Both angel investors and venture capitalists exchange capital for ownership. |

|  |  |
| --- | --- |
| **C.**  | Shareholders are responsible for paying off the corporate bonds in the event of a bankruptcy. |

|  |  |
| --- | --- |
| D.  | All of these choices are correct. |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 49. | All of the following are advantages to organizing as a corporation *EXCEPT*

|  |  |
| --- | --- |
| A.  | limited liability. |

|  |  |
| --- | --- |
| **B.**  | double taxation. |

|  |  |
| --- | --- |
| C.  | easy access to capital. |

|  |  |
| --- | --- |
| D.  | easy to transfer ownership.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 50. | Which of the following statements is correct?

|  |  |
| --- | --- |
| **A.**  | Sole proprietorships are easy to start. |

|  |  |
| --- | --- |
| B.  | If the sole proprietorship gets sued, the owner is not liable. |

|  |  |
| --- | --- |
| C.  | It is relatively easy for sole proprietorships to raise money. |

|  |  |
| --- | --- |
| D.  | Profits from the sole proprietorship are subject to double taxation.  |

 |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 51. | From a taxation perspective, the form of business organization with the highest business level taxes is the

|  |  |
| --- | --- |
| A.  | sole proprietorship. |

|  |  |
| --- | --- |
| **B.**  | corporation. |

|  |  |
| --- | --- |
| C.  | partnership. |

|  |  |
| --- | --- |
| D.  | S corporation.  |

 |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 52. | From the perspective of access to capital, the best form of business organization is the

|  |  |
| --- | --- |
| A.  | sole proprietorship. |

|  |  |
| --- | --- |
| **B.**  | corporation. |

|  |  |
| --- | --- |
| C.  | partnership. |

|  |  |
| --- | --- |
| D.  | S corporation.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. | From the perspective of ownership risk, the best form of business organization is the

|  |  |
| --- | --- |
| A.  | sole proprietorship. |

|  |  |
| --- | --- |
| **B.**  | corporation. |

|  |  |
| --- | --- |
| C.  | partnership. |

|  |  |
| --- | --- |
| D.  | S corporation.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. | From the perspective of control, the best form of business organization is the

|  |  |
| --- | --- |
| **A.**  | sole proprietorship. |

|  |  |
| --- | --- |
| B.  | corporation. |

|  |  |
| --- | --- |
| C.  | partnership. |

|  |  |
| --- | --- |
| D.  | S corporation.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. | Which of the following statements is incorrect?

|  |  |
| --- | --- |
| A.  | Partnerships have unlimited liability. |

|  |  |
| --- | --- |
| **B.**  | Most sole proprietors raise money by borrowing from banks. |

|  |  |
| --- | --- |
| C.  | An advantage of sole proprietorships is that the owner has complete control. |

|  |  |
| --- | --- |
| D.  | S corporations are considered a hybrid organization.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 56. | Which statement is incorrect regarding hybrid organizations?

|  |  |
| --- | --- |
| A.  | They offer single taxation. |

|  |  |
| --- | --- |
| B.  | They offer limited risk to the owners. |

|  |  |
| --- | --- |
| **C.**  | They offer the same type of control as a sole proprietorship. |

|  |  |
| --- | --- |
| D.  | All of these choices are correct. |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57. | Agency problems exist in which forms of business ownership?

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | S corporation |

|  |  |
| --- | --- |
| C.  | partnership |

|  |  |
| --- | --- |
| **D.**  | corporation |

 |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Agency costs and problems* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 58. | Methods to minimize agency problem include all *EXCEPT*

|  |  |
| --- | --- |
| A.  | offer the managers an equity stake in the firm. |

|  |  |
| --- | --- |
| B.  | award the CEO stock options. |

|  |  |
| --- | --- |
| C.  | allow the CEO to purchase stock via an employee stock option plan. |

|  |  |
| --- | --- |
| **D.**  | allow the CEO to purchase bonds via an employee bond option plan.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Agency costs and problems* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 59. | All of the following are an example of a fiduciary relationship *EXCEPT*

|  |  |
| --- | --- |
| A.  | a bank employee manages deposits. |

|  |  |
| --- | --- |
| B.  | a financial advisor advises her clients. |

|  |  |
| --- | --- |
| C.  | a CEO manages the firm. |

|  |  |
| --- | --- |
| **D.**  | the shareholder elects a board member.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-07 Discuss how ethical decision making is part of the study of financial management.Topic: Agency costs and problems* |

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| --- | --- | --- | --- | --- | --- | --- | --- |
| 60. | Restricted stock is

|  |  |
| --- | --- |
| **A.**  | a special type of stock that is not transferable from the current holder to others until specific conditions are satisfied. |

|  |  |
| --- | --- |
| B.  | a special type of stock that can be converted into corporate bonds after a specific amount of time has elapsed. |

|  |  |
| --- | --- |
| C.  | a special type of stock that is a result of offering an employee stock ownership plan. |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-07 Discuss how ethical decision making is part of the study of financial management.Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 61. | The board of directors

|  |  |
| --- | --- |
| A.  | are hired by the CEO. |

|  |  |
| --- | --- |
| **B.**  | are elected by shareholders. |

|  |  |
| --- | --- |
| C.  | have unlimited liability since they oversee the day-to-day operations of the firm. |

|  |  |
| --- | --- |
| D.  | are employed by the Securities Exchange Commission to ensure its rules and regulations have been met.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Management organization and roles* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 62. | Which of these does *NOT* act as a monitor of how the firm is being run outside the firm?

|  |  |
| --- | --- |
| A.  | auditors |

|  |  |
| --- | --- |
| B.  | analysts |

|  |  |
| --- | --- |
| C.  | credit rating agencies |

|  |  |
| --- | --- |
| **D.**  | members of the board of directors |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Ethics, governance, and regulation* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 63. | An angel investor differs from a venture capitalist because of the

|  |  |
| --- | --- |
| A.  | type of investment. |

|  |  |
| --- | --- |
| B.  | investment time frame. |

|  |  |
| --- | --- |
| **C.**  | size of investment. |

|  |  |
| --- | --- |
| D.  | voting rights.  |

 |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-04 Examine the three most common business organizational forms in the United States today.Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 64. | Corporate stakeholders include all of the following *EXCEPT*

|  |  |
| --- | --- |
| A.  | employees. |

|  |  |
| --- | --- |
| B.  | shareholders. |

|  |  |
| --- | --- |
| C.  | suppliers. |

|  |  |
| --- | --- |
| **D.**  | auditors.  |

 |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-05 Distinguish among appropriate and inappropriate goals for financial managers.Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 65. | What is the difference in perspective between finance and accounting?

|  |  |
| --- | --- |
| **A.**  | timing |

|  |  |
| --- | --- |
| B.  | risk |

|  |  |
| --- | --- |
| C.  | liability |

|  |  |
| --- | --- |
| D.  | ownership |

 |

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| --- |
| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-02 Show how finance is at the heart of sound business decisions.Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 66. | Which of the following statements is correct?

|  |  |
| --- | --- |
| **A.**  | Accountants are focused on what happened in the past. |

|  |  |
| --- | --- |
| B.  | Financial managers are focused on what happened in the past. |

|  |  |
| --- | --- |
| C.  | Both accountants and financial managers use total quality management systems to standardize data. |

|  |  |
| --- | --- |
| D.  | Financial managers double-check the accountant's statements.  |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-02 Show how finance is at the heart of sound business decisions.Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 67. | Which of these is the system of incentives and monitors that tries to overcome the agency problem?

|  |  |
| --- | --- |
| A.  | Security Exchange Commission |

|  |  |
| --- | --- |
| B.  | checks and Balances |

|  |  |
| --- | --- |
| C.  | board of Directors |

|  |  |
| --- | --- |
| **D.**  | corporate Governance |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-06 Identify a firms primary agency relationship and discuss the possible conflicts that may arise.Topic: Agency costs and problems* |

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| 68. | Which of the following do not ensure firm viability over the long run?

|  |  |
| --- | --- |
| A.  | maximizing employment |

|  |  |
| --- | --- |
| B.  | market share |

|  |  |
| --- | --- |
| C.  | profits |

|  |  |
| --- | --- |
| **D.**  | all of these choices are correct. |

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| *AACSB: Analytical ThinkingAccessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 BasicLearning Goal: 01-05 Distinguish among appropriate and inappropriate goals for financial managers.Topic: Goal of financial management* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 69. | Which of these must effectively distribute capital between investors and companies?

|  |  |
| --- | --- |
| A.  | individuals |

|  |  |
| --- | --- |
| B.  | international investors |

|  |  |
| --- | --- |
| C.  | companies |

|  |  |
| --- | --- |
| **D.**  | financial institutions |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.Topic: Capital market performance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 70. | Which of the following can use financial concepts to improve their decisions?

|  |  |
| --- | --- |
| A.  | financial professionals only |

|  |  |
| --- | --- |
| **B.**  | financial and nonfinance professionals |

|  |  |
| --- | --- |
| C.  | day-to-day operations managers only |

|  |  |
| --- | --- |
| D.  | long-term operations managers only  |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicLearning Goal: 01-02 Show how finance is at the heart of sound business decisions.Topic: Goal of financial management* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 71. | Which of the following will help you make better personal financial decisions?

|  |  |
| --- | --- |
| A.  | knowing finance theory |

|  |  |
| --- | --- |
| B.  | applying financial tools |

|  |  |
| --- | --- |
| C.  | auditors |

|  |  |
| --- | --- |
| **D.**  | knowing finance theory and applying financial tools. |

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| *AACSB: Reflective ThinkingAccessibility: Keyboard NavigationBlooms: RememberBlooms: UnderstandDifficulty: 1 BasicDifficulty: 2 IntermediateLearning Goal: 01-03 Learn the financial principles that govern your personal decisions.Topic: Introduction to corporate finance* |