



Dr.G.R.Damodaran College of Science

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II MBA(PART TIME)[2016-2019]

SEMESTER - III

CORE:FINANCIAL MANAGEMENT - 352B

Multiple Choice Questions.

1. The financial goal of a public sector firm fully owned by the government is to?
 - A. Maximize the book value per share
 - B. Maximize the profits earned by the firm
 - C. Maximize the present value of stream of equity returns
 - D. Maximize the return on equity

ANSWER: C

2. Which of the following is not a function of a finance manager?
 - A. Mobilization of funds.
 - B. Deployment of funds.
 - C. Control over use of funds.
 - D. Manipulate share price of the company.

ANSWER: D

3. The market value of the firm is the result of?
 - A. Dividend decisions.
 - B. Working capital decisions
 - C. Trade-off between cost and risk.
 - D. Trade-off between risk and return.

ANSWER: D

4. Which of the following is related to the control function of the financial manager?
 - A. Interaction with the bankers for arranging a short-term loan
 - B. Comparing the costs and benefits if different sources of finance.
 - C. Analysis of variance between the targeted costs and actual costs incurred.
 - D. Assessing the costs and benefits of a project under consideration.

ANSWER: C

5. The minimum number of person to form a private limited company and a public limited company respectively are?
 - A. 2 and 5
 - B. 5 and 7.
 - C. 2 and 7.
 - D. 7 and 2.

ANSWER: C

6. The present market price of a security which paid a dividend of Rs.5 is Rs.50. if the required rate of return is 15% the price expected after one year is?
 - A. Rs.52.50.
 - B. Rs.55.00
 - C. Rs.57.50.

D. Rs.62.50.
ANSWER: A

7. A risk free stock has a beta of?
- A. -1.
 - B. Zero.
 - C. 0.5.
 - D. 1.

ANSWER: B

8. If the expected rate of return on a portfolio consisting of two securities is 18.8% and the return on one security ,which constitutes 30% of the portfolio is 16%, the return on the other security is?
- A. 17%.
 - B. 18%.
 - C. 19%.
 - D. 19.8%.

ANSWER: D

9. Which of the following is not an assumption under CAPM?
- A. Investors make their investment decision on a single period horizon.
 - B. If the perceived risk is high , a risk-average investor expects higher return.
 - C. The investors is not limited by his wealth and price of the asset.
 - D. Assets can be bought at the going market price.

ANSWER: C

10. If he slope of the security market line is zero which of the following is true?
- A. Risk-free return = market return.
 - B. Market return expected return.
 - C. Expected return = risk-free return.
 - D. All of (a),(b) and(c) above.

ANSWER: D

11. If the coefficient correlation between x and y is 0.4, the covariance between them is 0.8 and standard deviation of y is 0.2, variance of x would be ?
- A. 0.01.
 - B. 0.1.
 - C. 10.
 - D. 100.

ANSWER: D

12. Which of the following is not a non diversifiable risk?
- A. Lock out in a company due to workers demanding a wage hike.
 - B. Slump in the industry
 - C. Lack of strategy for the management in a company.
 - D. Both (a) and (c) above.

ANSWER: D

13. The amount of risk reduction depends on?
- A. Degree of correlation.
 - B. Number of stocks in the portfolio.
 - C. The market index movement.
 - D. Both (a) and (b) above.

ANSWER: D

14. Which of the following is diversifiable risk?

- A. Inflation risk
- B. Interest-rate risk.
- C. Market risk.
- D. Business risk.

ANSWER: D

15. If a person holds a diversified portfolio the risk a security adds would be?

- A. Specific risk.
- B. Systematic risk.
- C. Portfolio risk.
- D. Liquidity risk.

ANSWER: B

16. Portfolio beta?

- A. Is the risk of a diversified portfolio.
- B. Is the weighted average of individual security betas, weights being the proportions of individual returns
- C. Is the weighted average of individual security betas , weight being the proportions of the investments in the respective securities.
- D. Both (a) and (c) above.

ANSWER: D

17. Which is true regarding $K_j = r_f + B(k_m - r_f)$?

- A. r_f can be the rate of return earned on gilt-edged securities.
- B. Lower B would give a low risk premium.
- C. There is a possibility that a zero beta exist
- D. All of the above.

ANSWER: D

18. The security's return plots below the SML. Then it can be said that ?

- A. It is overpriced.
- B. The required rate of return is much lower than the actual rate of return
- C. The investors would try to buy more of the security
- D. It is a defensive security.

ANSWER: A

19. A security is said to be aggressive when it?

- A. Has a beta of > 1 .
- B. Plots on the upper part of SML.
- C. Gives below average returns.
- D. Both (a) and (b) above.

ANSWER: A

20. Which of the following is not a non diversifiable risk?

- A. Interest rate risk.
- B. Purchasing power risk.
- C. Operating risk.
- D. Market risk

ANSWER: C

21. Risk return trade off implies?

- A. Increasing the portfolio of the firm through increased production.
- B. Not taking any loans which increases the risk.

C. Not granting credit to risky Customers.

D. Taking decision in such a way which optimizes the balance between risk and return.

ANSWER: D

22. If the covariance of returns of a stock and markets is $514.92(\%)^2$ and standard deviation of the returns on the market is 16.25%, then the stock is?

A. 0.80.

B. 1.00.

C. 1.63.

D. 1.95.

ANSWER: D

23. Which of the following is a specific risk factor?

A. Market risk.

B. Inflation risk.

C. Interest rate risk.

D. Financial risk.

ANSWER: D

24. Risk premium in the capital Asset pricing model(CAPM) is given by?

A. R_f .

B. $K_m - R_f$.

C. $B(K_m - R_f)$.

D. BK_m .

ANSWER: C

25. The risk arising due to uncertainty about the time element and the price concession in selling a security is called?

A. Price risk

B. Market risk.

C. Trading risk.

D. Liquidity risk.

ANSWER: D

26. Which of the following is not a diversifiable or specific risk factor?

A. Company strike.

B. Bankruptcy of a major supplier.

C. Death of a key company officer.

D. Industrial recession.

ANSWER: D

27. Mr.anil purchased 100 stocks of futura informatics ltd. For Rs.21 on march 15 sold for Rs.35 on march 14 next year. In the company paid a dividend of Rs.2.50 per share them anil s holding period return is?

A. 11.90%.

B. 45.40%.

C. 66.70%.

D. 78.60%.

ANSWER: D

28. The 182-day annualized T bills rate is 9% p.a the return on market is 15% p.a. and the beta of stock B is 1.5. the required rate of return from investment in stock B is?

A. 17% p.a.

B. 18% p.a.

- C. 19% p.a.
 - D. 20% p.a.
- ANSWER: B

29. Real rates of return are typically less than nominal rates of return due to?

- A. Inflation.
- B. Capital gains.
- C. Dividend payment.
- D. Deflation.

ANSWER: A

30. Real rates of return will be positive as long as?

- A. The nominal return is positive
- B. The inflation rate is positive.
- C. The nominal return exceeds real return.
- D. None of the above.

ANSWER: C

31. The major benefits of diversification is to?

- A. Increase the expected return.
- B. Increase the size of the investment portfolio.
- C. Reduce brokerage commissions
- D. Reduce the expected risk

ANSWER: D

32. If a stock is purchased for Rs.120 per share and held for one year during which time Rs.15 Per share dividend is paid and the decreases Rs.115 the nominal rate of returns is?

- A. 6.33%.
- B. 8.33%.
- C. 9.33%.
- D. 10.33%.

ANSWER: B

33. The risk free rate of return is 8% the expected rate of return on market portfolio is 15% the beta of eco board s equity stock is 1.4.the required rate on eco board s equity is ?

- A. 15.4%.
- B. 16.8%.
- C. 17.2%.
- D. 17.8%.

ANSWER: D

34. If the covariance of return from a stock and the market is(+) 221 (%)² and the variance of return from market is 121(%)² the beta of the stock is?

- A. 1.62.
- B. 1.82.
- C. 1.92.
- D. 2.00.

ANSWER: B

35. If a security generates a cash flow of Rs6.25 at the end of holding period of 1 year the price of the security at the beginning of 1 year was Rs.125 and the price of security at the end of 1 year is Rs.150 then of return from the security is?

- A. 10%.
- B. 15%.

- C. 20%.
- D. 25%.

ANSWER: D

36. Which of the following types of risks is/are not systematic risk?

- A. Credit risk.
- B. Interest rate risk.
- C. Purchasing power risk.
- D. Market risk.

ANSWER: A

37. If the return on a stock is 18% risk free rate is 6% and return on the market portfolio is 12 % then the beta of the stock is?

- A. 0.5.
- B. 1.0.
- C. 1.5
- D. 2.0.

ANSWER: D

38. The covariance of the return from a stock with the return from the market is 7.40 and the variance of the market portfolio is 4.80 what is the beta of the stock?

- A. 1.54.
- B. 3.40.
- C. 4.80.
- D. 6.10.

ANSWER: A

39. The risk that arises due to change in the purchasing power is called?

- A. Financial risk
- B. Interest rate risk.
- C. Market risk.
- D. Inflation risk

ANSWER: D

40. The risk aversion of an investor can be measured by?

- A. Perfect positive correlation.
- B. Perfect negative correlation
- C. Moderate positive correlation
- D. Moderate negative correlation.

ANSWER: D

41. If $R_f = 8\%$, $R_m = 12\%$, then the expected Rate of Return according to CAPM is equal to

- A. 10%.
- B. 14%.
- C. 18%.
- D. 24%.

ANSWER: B

42. Which of the following types of risk is not a diversifiable risk ?

- A. Business risk.
- B. Financial risk
- C. Credit risk
- D. Purchasing risk.

ANSWER: D

43. If the return on a stock increases by 8% when the return on market increases by 12% , then the beta of the stock is?

- A. . 1.50
- B. 1.20.
- C. 0.75.
- D. 0.67.

ANSWER: D

44. If a securitys return plots above the Security Market Line (SML) , then the security means?

- A. Overpriced.
- B. Un derricked.
- C. Beta is more than 1.
- D. Beta is less than 1.

ANSWER: B

45. If risk free rate of return is 10% , return on market portolio is 14% and return on a stock is 16% , then the beta of the stock is?

- A. . 0.80.
- B. 1.20.
- C. 1.30.
- D. 1.50.

ANSWER: D

46. If the covariance between the market return on the stock is 225% and the variance of return on the market is 200% then the beta of the stock is?

- A. 0.89.
- B. 0.98.
- C. 1.125
- D. 1.521.

ANSWER: C

47. Characteristic line is the relationship between return on stock and?

- A. Return on market portfolio.
- B. Risk free of return.
- C. Return on government
- D. Both (b) and (c) above.

ANSWER: A

48. In becoming market the companies are to be selected with Beta?

- A. Beta = 0
- B. Beta > 1.
- C. Beta < 1.
- D. Beta = 1.

ANSWER: B

49. Systematic Risk Factor(S) involved in investing in bonds?

- A. Purchase power risk.
- B. Interest rate risk.
- C. Yield rate risk.
- D. Both a) and b) above

ANSWER: D

50. The relationship between of a security and required rate of return is represented by?

- A. Characteristic line.
- B. Security market line.
- C. Capital market line.
- D. All of the above.

ANSWER: B

51. _____ is concerned with the acquisition, financing, and management of assets with some overall goal in mind.

- A. Financial management.
- B. Profit maximization.
- C. Agency theory.
- D. Social responsibility.

ANSWER: A

52. Jensen and Meckling showed that _____ can assure themselves that the _____ will make optimal decisions only if appropriate incentives are given and only if the _____ are monitored.

- A. Principals; agents; agents.
- B. Agents; principals; principals.
- C. Principals; agents; principals.
- D. Agents; principals; agents.

ANSWER: A

53. _____ is concerned with the maximization of a firm's earnings after taxes.

- A. Shareholder wealth maximization
- B. Profit maximization
- C. Stakeholder maximization.
- D. EPS maximization.

ANSWER: B

54. What is the most appropriate goal of the firm?

- A. Shareholder wealth maximization.
- B. Profit maximization.
- C. Stakeholder maximization.
- D. EPS maximization.

ANSWER: A

55. Which of the following statements is correct regarding profit maximization as the primary goal of the firm?

- A. Profit maximization considers the firm's risk level.
- B. Profit maximization will not lead to increasing short-term profits at the expense of lowering expected future profits
- C. Profit maximization does consider the impact on individual shareholder's EPS.
- D. Profit maximization is concerned more with maximizing net income than the stock price.

ANSWER: D

56. _____ is concerned with the branch of economics relating the behavior of principals and their agents.

- A. Financial management.
- B. Profit maximization.
- C. Agency theory
- D. Social responsibility.

ANSWER: C

57. A concept that implies that the firm should consider issues such as protecting the consumer, paying fair wages, maintaining fair hiring practices, supporting education, and considering environmental issues.

- A. Financial management.
- B. Profit maximization.
- C. Agency theory
- D. Social responsibility.

ANSWER: D

58. Which of the following is not normally a responsibility of the treasurer of the modern corporation but rather the controller?

- A. Budgets and forecasts.
- B. Asset management.
- C. Investment management
- D. Financing management.

ANSWER: A

59. The _____ decision involves determining the appropriate make-up of the right-hand side of the balance sheet.

- A. Asset management.
- B. Financing.
- C. Investment.
- D. Capital budgeting.

ANSWER: B

60. To whom does the Treasurer most likely report?

- A. Chief Financial Officer
- B. Vice President of Operations.
- C. Chief Executive Officer.
- D. Board of Directors.

ANSWER: A

61. The authors of your textbook suggest that you need to understand financial management even if you have no intention of becoming a financial manager. One reason is that the successful manager of the not-too-distant future will need to be much more of a _____ who has the knowledge and ability to move not just vertically within an organization but horizontally as well. Developing _____ will be the rule, not the exception.

- A. Specialist; specialties.
- B. Generalist; general business skills.
- C. Technician; quantitative skills.
- D. Team player; cross-functional capabilities.

ANSWER: D

62. The _____ decision involves a determination of the total amount of assets needed, the composition of the assets, and whether any assets need to be reduced, eliminated, or replaced

- A. Asset management.
- B. Financing.
- C. Investment.
- D. Accounting.

ANSWER: C

63. How are earnings per share calculated?

A. Use the income statement to determine earnings after taxes (net income) and divide by the previous period's earnings after taxes. Then subtract 1 from the previously calculated value.

B. Use the income statement to determine earnings after taxes (net income) and divide by the number of common shares outstanding

C. Use the income statement to determine earnings after taxes (net income) and divide by the number of common and preferred shares outstanding

D. Use the income statement to determine earnings after taxes (net income) and divide by the forecasted period's earnings after taxes. Then subtract 1 from the previously calculated value

ANSWER: C

64. According to the text's authors, what is the most important of the three financial management decisions?

A. Asset management decision

B. Financing decision.

C. Investment decision

D. Accounting decision

ANSWER: C

65. The _____ decision involves efficiently managing the assets on the balance sheet on a day to day basis, especially current assets

A. Asset management

B. Financing.

C. Investment.

D. Accounting

ANSWER: A

66. Which of the following is not a perquisite (perk)?

A. Company-provided automobile.

B. Expensive office.

C. Salary.

D. Country club membership.

ANSWER: C

67. Which of the following is not normally a responsibility of the controller of the modern corporation?

A. Budgets and forecasts.

B. Asset management

C. Financial reporting to the IRS.

D. Cost accounting.

ANSWER: B

68. All constituencies with a stake in the fortunes of the company are known as _____.

A. Shareholders.

B. Stakeholders.

C. Creditors.

D. Customers

ANSWER: B

69. Which of the following statements is not correct regarding earnings per share (EPS) maximization as the primary goal of the firm?

A. EPS maximization ignores the firm's risk level.

B. EPS maximization does not specify the timing or duration of expected EPS.

C. EPS maximization naturally requires all earnings to be retained.

D. EPS maximization is concerned with maximizing net income.

ANSWER: D

70. _____ is concerned with the maximization of a firms stock price.

- A. Shareholder wealth maximization.
- B. Profit maximization.
- C. Stakeholder welfare maximization.
- D. EPS maximization

ANSWER: A

71. Corporate governance success includes three key groups. Which of the following represents these three groups?

- A. Suppliers, managers, and customers.
- B. Board of Directors, executive officers, and common shareholders.
- C. Suppliers, employees, and customers.
- D. Common shareholders, managers, and employees.

ANSWER: B

72. The ShortHolder bank pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit. If you deposit \$20,000 you would expect to earn around _____ in interest.

- A. \$840.
- B. \$858.
- C. \$1,032.
- D. \$1,121

ANSWER: B

73. With continuous compounding at 8 percent for 20 years, what is the approximate future value of a \$20,000 initial investment?

- A. \$52,000
- B. \$93,219
- C. . \$99,061.
- D. \$915,240.

ANSWER: C

74. .In 2 years you are to receive \$10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

- A. Fall.
- B. . Rise.
- C. Remain unchanged.
- D. The correct answer cannot be determined without more information

ANSWER: B

75. Assume that the interest rate is greater than zero. Which of the following cash-inflow streams totaling \$1,500 would you prefer? The cash flows are listed in order for Year 1, Year 2, and Year 3 respectively.

- A. 700 \$500 \$300
- B. 300 \$500 \$700
- C. \$500 \$500 \$500.
- D. Any of the above, since they each sum to \$1,500.

ANSWER: A

76. You are considering investing in a zero-coupon bond that sells for \$500. At maturity in 8 years, it will be redeemed for \$1,000. During the life of the bond NO interest coupons will be paid. Using the Rule of 72, what approximate annual rate of growth does this represent?

- A. 8 percent.
- B. . 9 percent.
- C. 12 percent.
- D. 25 percent.

ANSWER: B

77. To increase a given future value, the discount rate should be adjusted _____.
- A. Upward
 - B. Downward.
 - C. First upward and then downward.
 - D. None of the above answers are correct; you should use PVIF

ANSWER: A

78. For \$1,000 you can purchase a 5-year ordinary annuity which will pay you a yearly payment of \$263.80 for 5 years. What is the annual interest rate implicit in this investment to the nearest whole percentage point?
- A. 8 percent
 - B. 9 percent.
 - C. 10 percent.
 - D. . 11 percent.

ANSWER: C

79. You are considering borrowing \$100,000 for 30 years at a compound annual interest rate of 9 percent. The loan agreement calls for 30 equal annual payments, to be paid at the end of each of the next 30 years. (Payments include both principal and interest.) What is the annual payment that will fully amortize the loan?
- A. \$3,333.33
 - B. \$6,400.30
 - C. \$9,733.63
 - D. \$12,333.33

ANSWER: C

80. Interest paid (earned) on only the original principal borrowed (lent) is often referred to as _____.
- A. Present value
 - B. Simple interest.
 - C. Future value.
 - D. Compound interest.

ANSWER: B

81. Interest paid (earned) on both the original principal borrowed (lent) and previous interest earned is often referred to as _____.
- A. Present value.
 - B. Simple interest.
 - C. Future value
 - D. Compound interest.

ANSWER: D

82. You are going to place \$12,500 into a certificate of deposit (CD) at a 6% annual rate (compounded annually) with a maturity of 30 months. How much money will you receive when the CD matures?
- A. Necessary information is not available to solve the problem
 - B. \$14,460.
 - C. \$14,491
 - D. . \$14,518

ANSWER: B

83. Which of the following investment alternatives would provide the greatest ending wealth for your investment?

- A. 10% compounded daily (360 days).
 - B. 10.5% compounded annually.
 - C. 10.25% compounded quarterly.
 - D. There is not sufficient information to determine the best alternative from the above information.
- ANSWER: C

84. Which of the following statements is most correct?

- A. The future value of an annuity due is greater than an otherwise identical ordinary annuity.
 - B. A reduction in the discount rate will increase the future value of an otherwise identical cash flow stream
 - C. Continuous compounding will result in a higher present value relative to an otherwise identical investment that is compounded monthly at the same nominal rate.
 - D. The FVIFA ($i\%$, N periods) equals the sum of the PVIF($i\%$, n) for $n=1$ to N periods
- ANSWER: A

85. A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as _____.

- A. Probability distribution.
- B. The expected return.
- C. The standard deviation
- D. Coefficient of variation.

ANSWER: A

86. A statistical measure of the variability of a distribution around its mean is referred to as _____.

- A. A probability distribution.
- B. The expected return.
- C. The standard deviation
- D. Coefficient of variation.

ANSWER: C

87. The ratio of the standard deviation of a distribution to the mean of that distribution is referred to as _____.

- A. a probability distribution.
- B. the expected return.
- C. the standard deviation.
- D. coefficient of variation.

ANSWER: D

88. The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

- A. a probability distribution
- B. the expected return.
- C. the standard deviation.
- D. coefficient of variation.

ANSWER: B

89. Clive Rodney Megabucks offers your friend, Yunyoung, an interesting gamble involving giving her the choice of the contents in one of two sealed, identical-looking boxes. One box has \$20,000 in cash and the second has nothing inside. There is an equal probability that the chosen box contains cash versus nothing. Yunyoung states that she would not call off the gamble if you offered her a certain \$4,999 instead of her choice of box. However, she would be indifferent if \$5,000 was offered in place of the risky gamble; and she would definitely take \$5,001 to call off the gamble. We would describe Yunyoung as _____ in this instance.

- A. being risk averse.
- B. being risk indifferent.
- C. having a risk preference
- D. None of the above

ANSWER: A

90. Which of the following statements regarding covariance is correct?

- A. Covariance always lies in the range -1 to +1.
- B. Covariance, because it involves a squared value, must always be a positive number (or zero).
- C. Low covariances among returns for different securities leads to high portfolio risk.
- D. Covariances can take on positive, negative, or zero values.

ANSWER: D

91. Which of the following portfolio statistics statements is correct?

- A. A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.
- B. portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.
- C. The square root of a portfolio's standard deviation of return equals its variance.
- D. The square root of a portfolio's standard deviation of return equals its coefficient of variation.

ANSWER: A

92. Total portfolio risk is _____.

- A. equal to systematic risk plus non-diversifiable risk
- B. equal to avoidable risk plus diversifiable risk
- C. equal to systematic risk plus unavoidable risk
- D. equal to systematic risk plus diversifiable risk

ANSWER: D

93. _____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

- A. Systematic risk
- B. Standard deviation.
- C. Unsystematic risk
- D. Coefficient of variation.

ANSWER: C

94. _____ is the variability of return on stocks or portfolios associated with changes in return on the market as a whole.

- A. Systematic risk.
- B. Standard deviation.
- C. Unsystematic risk
- D. Coefficient of variation

ANSWER: A

95. Which of the following indexes would be most the appropriate proxy to measure the return of the market portfolio in the CAPM?

- A. Dow Jones Industrial Index.
- B. Standard & Poor's 500.
- C. Solomon Brothers Bond Index.
- D. Wilshire Gold Index.

ANSWER: B

96. The _____ describes the linear relationship between expected rates of return for individual

securities (or portfolios) and _____.

- A. characteristic line; standard deviation.
- B. characteristic line; beta.
- C. security market line; standard deviation.
- D. security market line; beta.

ANSWER: D

97. The _____ describes the relationship between an individual security's returns and returns on the market portfolio. The slope of this line is _____.

- A. security market line; beta.
- B. characteristic line; beta.
- C. security market line; equal to +1.
- D. characteristic line; equal to +1.

ANSWER: B

98. Which of the following items describes an index measure of systematic risk?

- A. Beta
- B. Standard deviation.
- C. Coefficient of variation.
- D. Variance.

ANSWER: A

99. Which of the following items is a model that describes the relationship between risk and expected return (in this model the expected return is equal to the risk-free return plus a premium based on the systematic risk of the security)?

- A. . Beta.
- B. Characteristic line.
- C. Capital asset pricing model.
- D. Efficient markets model.

ANSWER: C

100. What is the beta for an average risk security? What is the beta for a Treasury bill?

- A. 1; 0.
- B. . 0; 1
- C. Greater than 1; 1
- D. 1; Greater than 1.

ANSWER: A

101. Assume that a firm's common stock can be valued using the constant dividend growth model. As an analyst you expect that the return on the market will be 15% and the risk-free rate is 7%. You have estimated that the dividend next period will be \$1.50, the firm will grow at a constant 6%, and the firm beta is 0.50. The common stock is currently selling for \$30.00 in the market place. Which of the following statements is correct?

- A. The firm's stock is over-priced
- B. The firm's stock is fairly priced.
- C. The firm's stock is under-priced.
- D. The firm's stock cannot be valued because of missing information.

ANSWER: B

102. Which form of market efficiency states that current security prices fully reflect all information, both public and private?

- A. Weak.
- B. Semi-strong.
- C. Strong.

D. Very Strong
ANSWER: C

103. Which form of market efficiency states that current prices fully reflect the historical sequence of prices?

- A. Weak.
- B. Semi-strong.
- C. Strong.
- D. Very Strong.

ANSWER: A

104. Which form of market efficiency states that current prices fully reflect all publicly available information?

- A. Weak.
- B. Semi-strong.
- C. Strong.
- D. Very Strong

ANSWER: B

105. _____ is concerned with the acquisition, financing, and management of assets with some overall goal in mind.

- A. Financial management
- B. Profit maximization.
- C. Agency theory
- D. Social responsibility.

ANSWER: A

106. Jensen and Meckling showed that _____ can assure themselves that the _____ will make optimal decisions only if appropriate incentives are given and only if the _____ are monitored.

- A. principals; agents; agents.
- B. agents; principals; principals.
- C. principals; agents; principals
- D. agents; principals; agents.

ANSWER: D

107. _____ is concerned with the maximization of a firm's earnings after taxes.

- A. Shareholder wealth maximization
- B. Profit maximization.
- C. Stakeholder maximization.
- D. EPS maximization.

ANSWER: B

108. What is the most appropriate goal of the firm?

- A. Shareholder wealth maximization.
- B. Profit maximization.
- C. Stakeholder maximization.
- D. EPS maximization.

ANSWER: A

109. Which of the following statements is correct regarding profit maximization as the primary goal of the firm?

- A. Profit maximization considers the firm's risk level.
- B. Profit maximization will not lead to increasing short-term profits at the expense of lowering

expected future profits.

C. Profit maximization does consider the impact on individual shareholder's EPS.

D. Profit maximization is concerned more with maximizing net income than the stock price.

ANSWER: D

110. _____ is concerned with the branch of economics relating the behavior of principals and their agents.

A. Financial management

B. Profit maximization.

C. Agency theory.

D. Social responsibility.

ANSWER: C

111. A concept that implies that the firm should consider issues such as protecting the consumer, paying fair wages, maintaining fair hiring practices, supporting education, and considering environmental issues.

A. Financial management

B. Profit maximization.

C. . Agency theory.

D. Social responsibility.

ANSWER: D

112. Which of the following is not normally a responsibility of the treasurer of the modern corporation but rather the controller?

A. Budgets and forecasts

B. Asset management.

C. Investment management.

D. Financing management.

ANSWER: A

113. The _____ decision involves determining the appropriate make-up of the right-hand side of the balance sheet.

A. asset management.

B. Financing.

C. Investment.

D. capital budgeting.

ANSWER: B

114. To whom does the Treasurer most likely report?

A. . Chief Financial Officer.

B. Vice President of Operations.

C. Chief Executive Officer.

D. Board of Directors.

ANSWER: A

115. The authors of your textbook suggest that you need to understand financial management even if you have no intention of becoming a financial manager. One reason is that the successful manager of the not-too-distant future will need to be much more of a _____ who has the knowledge and ability to move not just vertically within an organization but horizontally as well. Developing _____ will be the rule, not the exception.

A. specialist; specialties.

B. generalist; general business skills.

C. technician; quantitative skills.

D. team player; cross-functional capabilities.

ANSWER: D

116. The _____ decision involves a determination of the total amount of assets needed, the composition of the assets, and whether any assets need to be reduced, eliminated, or replaced.

- A. asset management.
- B. Financing.
- C. Investment.
- D. Accounting

ANSWER: C

117. How are earnings per share calculated?

- A. Use the income statement to determine earnings after taxes (net income) and divide by the previous period's earnings after taxes. Then subtract 1 from the previously calculated value.
- B. Use the income statement to determine earnings after taxes (net income) and divide by the number of common shares outstanding
- C. Use the income statement to determine earnings after taxes (net income) and divide by the number of common and preferred shares outstanding
- D. Use the income statement to determine earnings after taxes (net income) and divide by the forecasted period's earnings after taxes. Then subtract 1 from the previously calculated value

ANSWER: B

118. According to the text's authors, what is the most important of the three financial management decisions?

- A. Asset management decision.
- B. Financing decision.
- C. Investment decision.
- D. Accounting decision

ANSWER: C

119. The _____ decision involves efficiently managing the assets on the balance sheet on a day-to-day basis, especially current assets

- A. asset management
- B. Financing
- C. Investment
- D. Accounting.

ANSWER: A

120. Which of the following is not a perquisite (perk)?

- A. Company-provided automobile.
- B. Expensive office.
- C. Salary.
- D. Country club membership.

ANSWER: C

121. Which of the following is not normally a responsibility of the controller of the modern corporation?

- A. Budgets and forecasts.
- B. Asset management.
- C. Financial reporting to the IRS
- D. Cost accounting.

ANSWER: B

122. All constituencies with a stake in the fortunes of the company are known as _____.

- A. Shareholders.
- B. Stakeholders.

- C. Creditors.
- D. Customers.

ANSWER: B

123. Which of the following statements is not correct regarding earnings per share (EPS) maximization as the primary goal of the firm?

- A. EPS maximization ignores the firm's risk level.
- B. EPS maximization does not specify the timing or duration of expected EPS.
- C. EPS maximization naturally requires all earnings to be retained.
- D. EPS maximization is concerned with maximizing net income.

ANSWER: D

124. _____ is concerned with the maximization of a firm's stock price.

- A. Shareholder wealth maximization
- B. Profit maximization.
- C. Stakeholder welfare maximization.
- D. EPS maximization.

ANSWER: A

125. Corporate governance success includes three key groups. Which of the following represents these three groups?

- A. Suppliers, managers, and customers.
- B. Board of Directors, executive officers, and common shareholders.
- C. Suppliers, employees, and customers.
- D. Common shareholders, managers, and employees.

ANSWER: B

126. The firm of Sun and Moon purchased a share of Acme.com common stock exactly one year ago for \$45. During the past year the common stock paid an annual dividend of \$2.40. The firm sold the security today for \$85. What is the rate of return the firm has earned?

- A. . 5.3%
- B. 194.2%
- C. 88.9%
- D. 94.2%

ANSWER: A

127. A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as _____.

- A. probability distribution.
- B. the expected return.
- C. the standard deviation
- D. coefficient of variation.

ANSWER: A

128. A statistical measure of the variability of a distribution around its mean is referred to as _____.

- A. probability distribution
- B. the expected return.
- C. . the standard deviation
- D. coefficient of variation.

ANSWER: C

129. The ratio of the standard deviation of a distribution to the mean of that distribution is referred to as _____.

- A. probability distribution.
- B. the expected return
- C. the standard deviation.
- D. coefficient of variation.

ANSWER: D

130. The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

- A. a probability distribution.
- B. the expected return.
- C. the standard deviation.
- D. . coefficient of variation

ANSWER: B

131. Clive Rodney Megabucks offers your friend, Melanie, an interesting gamble involving giving her the choice of the contents in one of two sealed, identical-looking boxes. One box has \$20,000 in cash and the second has nothing inside. There is an equal probability that the chosen box contains cash versus nothing. Melanie states that she would not call off the gamble if you offered her a certain \$10,999 instead of her choice of box. However, she would be indifferent if \$11,000 was offered in place of the risky gamble; and she would definitely take \$11,001 to call off the gamble. We would describe Melanie as _____ in this instance.

- A. being risk averse.
- B. being risk indifferent.
- C. having a risk preference.
- D. None of the above.

ANSWER: C

132. Clive Rodney Megabucks offers your friend, Yunyoung, an interesting gamble involving giving her the choice of the contents in one of two sealed, identical-looking boxes. One box has \$20,000 in cash and the second has nothing inside. There is an equal probability that the chosen box contains cash versus nothing. Yunyoung states that she would not call off the gamble if you offered her a certain \$4,999 instead of her choice of box. However, she would be indifferent if \$5,000 was offered in place of the risky gamble; and she would definitely take \$5,001 to call off the gamble. We would describe Yunyoung as _____ in this instance.

- A. being risk averse.
- B. being risk indifferent.
- C. having a risk preference.
- D. None of the above.

ANSWER: A

133. Total portfolio risk is _____.

- A. equal to systematic risk plus nondiversifiable risk.
- B. equal to avoidable risk plus diversifiable risk.
- C. equal to systematic risk plus unavoidable risk.
- D. equal to systematic risk plus diversifiable risk.

ANSWER: B

134. _____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification

- A. Systematic risk.
- B. Standard deviation
- C. Unsystematic risk.
- D. Coefficient of variation.

ANSWER: C

135. _____ is the variability of return on stocks or portfolios associated with changes in return on the market as a whole.
- A. Systematic risk.
 - B. Standard deviation.
 - C. Unsystematic risk.
 - D. Coefficient of variation.

ANSWER: A

136. Which of the following indexes would be most the appropriate proxy to measure the return of the market portfolio in the CAPM?
- A. Dow Jones Industrial Index.
 - B. Standard & Poor's 500.
 - C. Solomon Brothers Bond Index.
 - D. Wilshire Gold Index.

ANSWER: B

137. The _____ describes the linear relationship between expected rates of return for individual securities (or portfolios) and _____.
- A. characteristic line; standard deviation.
 - B. characteristic line; beta.
 - C. security market line; standard deviation.
 - D. security market line; beta.

ANSWER: D

138. The _____ describes the relationship between an individual security's returns and returns on the market portfolio. The slope of this line is _____.
- A. security market line; beta.
 - B. characteristic line; beta.
 - C. security market line; equal to +1.
 - D. characteristic line; equal to +1.

ANSWER: B

139. Which of the following items describes an index measure of systematic risk?
- A. Beta
 - B. Standard deviation
 - C. Coefficient of variation.
 - D. Variance

ANSWER: A

140. Which of the following items is a model that describes the relationship between risk and expected return (in this model the expected return is equal to the risk-free return plus a premium based on the systematic risk of the security)?
- A. Beta.
 - B. Characteristic line.
 - C. Capital asset pricing model.
 - D. Efficient markets model.

ANSWER: C

141. What is the beta for an average risk security? What is the beta for a Treasury bill?
- A. 1; 0.
 - B. 0; 1.
 - C. Greater than 1; 1.
 - D. . 1; Greater than 1.

ANSWER: A

142. Assume that a firm's common stock can be valued using the constant dividend growth model. As an analyst you expect that the return on the market will be 15% and the risk-free rate is 7%. You have estimated that the dividend next period will be \$1.50, the firm will grow at a constant 6%, and the firm beta is 0.50. The common stock is currently selling for \$30.00 in the market place. Which of the following statements is correct?

- A. The firm's stock is over priced.
- B. The firm's stock is fairly priced.
- C. The firm's stock is under priced.
- D. The firm's stock cannot be valued because of missing information

ANSWER: B

143. Which form of market efficiency states that current security prices fully reflect all information, both public and private?

- A. Weak.
- B. Semi-strong.
- C. Strong.
- D. Very strong.

ANSWER: C

144. Which form of market efficiency states that current security prices fully reflect all information, both public and private?

- A. Weak
- B. Semi-strong.
- C. Strong.
- D. Very strong.

ANSWER: C

145. Which form of market efficiency states that current prices fully reflect the historical sequence of prices?

- A. Weak.
- B. Semi-strong.
- C. Strong.
- D. Very strong.

ANSWER: A

146. Which form of market efficiency states that current prices fully reflect all publicly available information?

- A. Weak.
- B. Semi-strong.
- C. Strong.
- D. Very strong.

ANSWER: B

147. Which of the following examples best represents a passive dividend policy?

- A. The firm sets a policy such that the proportion of dividends paid from net income remains constant.
- B. The firm pays dividends with what remains of net income after taking acceptable investment projects
- C. The firm sets a policy such that the quantity (dollar amount per share) of dividends paid from net income remains constant
- D. All of the above are examples of various types of passive dividend policies.

ANSWER: B

148. Modigliani and Miller argue that the dividend decision _____.

- A. is irrelevant as the value of the firm is based on the earning power of its assets.
- B. is relevant as the value of the firm is not based just on the earning power of its assets.
- C. is irrelevant as dividends represent cash leaving the firm to shareholders, who own the firm anyway.
- D. is relevant as cash outflow always influences other firm decisions.

ANSWER: A

149. Financial signaling has been raised as an argument in the battle over the relevancy of dividends. Which of the following statements concerning dividends is most likely to be voiced by someone using the financial signaling argument?

- A. A dividend decrease should be viewed by investors as "good news." The dividend decrease acts to add conviction to the statement that the firm has better uses for the earnings of the company than the stockholders.
- B. Reported accounting earnings of a company, not dividends, are a proper reflection or signal of the company's economic earnings.
- C. The price of a firm's stock should react unfavorably to an increase in dividends
- D. Cash dividends speak louder than words when it comes to conveying information about management's expectations of the future.

ANSWER: D

150. A number of legal rules help to establish the legal boundaries within which a firm's finalized dividend policy can operate. These legal rules have to do with capital impairment, insolvency, and undue retention of earnings. Some states have a (an) _____ rule, while the Internal Revenue Service has a (an) _____ rule.

- A. capital impairment; insolvency.
- B. undue retention of earnings; insolvency.
- C. insolvency rule; capital impairment.
- D. capital impairment (or insolvency); undue retention of earnings.

ANSWER: D

151. Firm Pickemon, Inc. has had earnings of \$3.20, \$3.00, and \$5.50 per share for the past three years. The firm anticipates maintaining the same dividend policy this year as the past three years. That dividend policy has resulted in dividends per share of \$1.28, \$1.20, and \$2.20 for the past three years. It is anticipated that the next year will result in a large increase in earnings to \$9.80 per share. What dividend do you expect the firm to pay in the next year?

- A. \$3.92.
- B. \$1.56.
- C. \$3.12
- D. \$4.68.

ANSWER: A

152. Investors may be willing to pay a premium for stable dividends because of the informational content of _____, the desire of investors for _____, and certain _____.

- A. institutional considerations; dividends; current income.
- B. dividends; current income; institutional considerations.
- C. current income; dividends; institutional considerations.
- D. institutional considerations; current income; dividends

ANSWER: B

153. Because of various governmental bodies prepare approved (or legal) lists of securities in which certain institutions (like pension funds) may invest, companies whose securities appear on these lists _____.

A. will think twice before cutting or eliminating a dividend because that will cause them to be removed from the lists

B. do not have to worry about whether they pay a dividend or not because they have been pre-approved

C. will want to follow a strictly passive dividend policy

D. are legally authorized to substitute stock dividends for cash dividends.

ANSWER: A

154. A(n) _____ is a payment of additional shares to shareholders in lieu of cash

A. stock split.

B. stock dividend.

C. extra dividend.

D. regular dividend

ANSWER: B

155. A(n) _____ occurs when there is an increase in the number of shares outstanding by reducing the par value of stock.

A. stock split.

B. stock dividend.

C. extra dividend.

D. regular dividend.

ANSWER: A

156. A(n) _____ is the expected cash dividend that is normally paid to shareholders

A. stock split.

B. stock dividend.

C. extra dividend.

D. regular dividend.

ANSWER: D

157. _____ is a nonrecurring dividend paid to shareholders in addition to the regular dividend

A. A stock split

B. A stock dividend.

C. An extra dividend.

D. A regular dividend.

ANSWER: C

158. What method of stock repurchase occurs when the buyer seeks bids within a specified price range and accepts the lowest price that will allow it to acquire the entire block of securities desired?

A. Dutch-auction.

B. Fixed-price.

C. Open-market.

D. Fair-warning.

ANSWER: A

159. What method of stock repurchase occurs when the buyer purchases securities through a brokerage house?

A. Dutch-auction

B. Fixed-price.

C. Open-market

D. Fair-warning.

ANSWER: C

160. The shareholders of your firm anticipate receiving a regular dividend that is consistent with past

dividend policies. What benefit occurs to shareholders if the firm repurchases shares with the same total quantity of money that would have been spent on dividends? Assume that the P/E ratio is maintained with either scenario.

- A. Shareholders can postpone or reduce taxes (assuming a lower capital gain rate).
- B. It is cheaper for shareholders to sell existing shares for cash than it costs to reinvest cash dividends into existing shares.
- C. The current shareholders benefit because there are a greater number shareholders than if the firm pays a cash dividend.
- D. There is no benefit as shareholders will not be receiving any cash.

ANSWER: A

161. A dividend reinvestment plan (DRIP) is _____.

- A. an optional plan, provided by brokerage firms, allowing shareholders to automatically reinvest dividend payments in additional shares of the firm's stock.
- B. an optional plan, provided by large corporate firms, allowing shareholders to automatically reinvest dividend payments in additional shares of the firm's stock
- C. a mandatory plan, provided by brokerage firms, where shareholders are automatically reinvesting dividend payments in additional shares of the firm's stock at a reduced price
- D. a mandatory plan, provided by large corporate firms, where shareholders are automatically reinvesting dividend payments in additional shares of the firm's stock at a reduced price.

ANSWER: B

162. The Board of Directors announces the amount and date of the next dividend on the _____ date; while the _____ date is the first date on which the purchaser of a stock is no longer entitled to the recently declared dividend

- A. declaration; record.
- B. ex-dividend; record.
- C. declaration; ex-dividend.
- D. payment; record

ANSWER: C

163. Which of the following is not a reason that DeStore.com would prefer to pay a stock dividend rather than a regular cash dividend?

- A. It decreases the supply of shares and enhances shareholder wealth
- B. It may conserve cash for other firm needs
- C. It will reduce the stock price into what management perceives as a more beneficial trading range
- D. It may convey information about the firm to investors that it cannot convey credibly otherwise

ANSWER: A

164. According to the authors of your text, the repurchase of stock is considered _____ decision rather than _____ decision.

- A. an investment; a financing
- B. . a financing; an investment
- C. an investment; a dividend.
- D. a dividend; a financing

ANSWER: B

165. Large percentage stock dividends are typically _____ percent or higher of previously outstanding common stock.

- A. 25.
- B. 35
- C. 51.
- D. 70.

ANSWER: A

166. The _____ is the proportion of earnings that are paid to common shareholders in the form of a cash dividend.

- A. retention rate.
- B. 1 plus the retention rate.
- C. growth rate.
- D. dividend payout ratio.

ANSWER: D

167. Which of the following provides a judicial review of a mergers-decision made by the OFT, CC or Secretary of State for Trade and Industry?

- A. Secretary of State for Trade and Industry
- B. Competition Appeal Tribunal (CAT).
- C. Competition Commission.
- D. Office of Fair Trading (OFT).

ANSWER: B

168. For the next five questions match each of the following descriptions of a type of merger or acquisition with its correct term. Involving a firm in the same business and at the same stage of production.

- A. Lateral integration
- B. Conglomerate integration.
- C. Horizontal integration.
- D. Organic growth

ANSWER: C

169. Involving a firm in a totally unrelated business

- A. Conglomerate integration.
- B. Organic growth.
- C. Backward vertical integration
- D. Forward integration.

ANSWER: A

170. Towards the final consumer.

- A. Forward integration.
- B. Horizontal integration.
- C. Lateral integration.
- D. Organic growth.

ANSWER: A

171. Involves firms in different product areas, but with some common elements (e.g. common factor inputs or product).

- A. Backward vertical integration.
- B. Lateral integration.
- C. Organic growth.
- D. Conglomerate integration.

ANSWER: B

172. Towards the raw material supplier.

- A. Forward vertical integration.
- B. Backward vertical integration.
- C. Lateral integration.
- D. Organic growth.

ANSWER: B

173. A firm that acquires another firm as part of its strategy to sell off assets, cut costs, and operate the remaining assets more efficiently is engaging in _____.

- A. strategic acquisition.
- B. financial acquisition.
- C. two-tier tender offer.
- D. shark repellent.

ANSWER: B

174. A would-be acquirer's offer to buy stock directly from shareholders is referred to as _____.

- A. a white knight.
- B. a joint venture
- C. a tender offer.
- D. a takeover

ANSWER: C

175. The restructuring of a firm should be undertaken if _____.

- A. the restructuring is expected to create value for shareholders
- B. the restructuring is expected to increase earnings per share (EPS) next year.
- C. the restructuring is expected to increase the firm's market share power within the industry.
- D. the current employees will receive additional stock options to align employee interest.

ANSWER: A

176. Economies of scale, market share dominance, and technological advances are reasons most likely to be offered to justify a.

- A. financial acquisition
- B. strategic acquisition.
- C. Divestiture
- D. supermajority merger approval provision.

ANSWER: B

177. Answer : B 189. Suppose that the market price per share of Company A is \$100 and that of Company B is \$40. If A offers one-half ($1/2$) a share of common stock for each share of B, the exchange ratio with respect to market prices would be _____.

- A. 0.40.
- B. 0.80.
- C. 1.25.
- D. . 2.50.

ANSWER: C

178. A reason suggested by the authors for a divestiture, such as a sell-off or spin-off, is _____.

- A. Synergy.
- B. Reverse synergy.
- C. Hubris.
- D. Economies of scale.

ANSWER: B

179. What is the most likely reason that a firm (who is highly profitable) might consider acquiring a firm that has had large recent losses and will continue to have losses into the near future?

- A. Hubris.
- B. White knight.
- C. Tax-loss usage
- D. Increase assets.

ANSWER: C

180. Richard Roll makes a case with the _____ hypothesis that takeovers are motivated by bidder pride and confidence in their abilities relative to others.

- A. Synergy
- B. management success.
- C. efficient markets.
- D. Hubris.

ANSWER: D

181. A merger that signals to the investors in the market place a change in strategy or operating efficiency that can not be conveyed in another manner is referred to as _____.

- A. the information effect.
- B. the wealth effect.
- C. strategic effect
- D. bootstrapping effect.

ANSWER: A

182. A firm that acquires another firm as part of its overall business strategy is engaging in _____.

- A. strategic acquisition.
- B. financial acquisition.
- C. two-tier tender offer.
- D. vertical acquisition.

ANSWER: A

183. The average takeover premium a target firm has historically received is closest to which of the following percentages?

- A. 5%.
- B. 12%.
- C. . 30%.
- D. 80%.

ANSWER: C

184. What remains after we subtract operating costs and capital expenditures necessary to at least sustain cash flows from total firm revenues?

- A. Earnings before interest and taxes (EBIT).
- B. Net income.
- C. Strategic cash flows.
- D. Free cash flows.

ANSWER: D

185. How should a successful acquisition be evaluated in the long-run?

- A. The acquisition is successful if the market price of the acquirer's stock increases over what it would have been without the acquisitions.
- B. The acquisition is successful if the acquirer is able to diversify its asset base and reduce its overall risk.
- C. The acquisition is successful if the acquirer is able to reduce its debt-to-total asset ratio, and hence risk, relative to what it would have been without the acquisition.
- D. The acquisition is successful if the acquirer is able to increase its earnings per share (EPS), relative to what it would have been without the acquisition The acquisition is x.

ANSWER: D

186. To financial analysts, "gross working capital" means the same thing as _____.

- A. fixed assets.
- B. current assets.

- C. working capital.
- D. cost of capital

ANSWER: B

187. To financial analysts, "gross working capital" means the same thing as _____.
- A. plus its receivable turnover in days (RTD).
 - B. minus its RTD.
 - C. plus its RTD minus its payable turnover in days (PTD).
 - D. minus its RTD minus its PTD.

ANSWER: A

188. The process of convergence of accounting standards around the world aims to .
- A. narrow or remove national accounting differences.
 - B. move non-US accounting standards towards.
 - C. US Generally Accepted Accounting Principles (US GAAP).
 - D. create one set of rules-based accounting standards for all countries.

ANSWER: A

189. Shareholder wealth" in a firm is represented by.
- A. the number of people employed in the firm.
 - B. the book value of the firm's assets less the book value of its liabilities.
 - C. . the amount of salary paid to its employees.
 - D. the market price per share of the firm's common stock

ANSWER: D

190. What are the earnings per share (EPS) for a company that earned \$100,000 last year in after-tax profits, has 200,000 common shares outstanding and \$1.2 million in retained earnings at the year end?
- A. \$100,000
 - B. . \$6.00
 - C. \$0.50
 - D. \$6.50

ANSWER: C

191. would be an example of a principal, while a(n) would be an example of an agent.
- A. Shareholder; manager.
 - B. Manager; owner
 - C. Accountant; bondholder.
 - D. Shareholder; bondholder.

ANSWER: A

192. . If an investment banker has agreed to sell a new issue of securities on a best-efforts basis, the issue
- A. most likely involves an unusually large stock offering
 - B. most likely involves bonds instead of common stock
 - C. results in no assumption of underwriting risk by the investment banker.
 - D. most likely involves a well-established, large company

ANSWER: C

193. The actual market value of a right will differ from its theoretical value for all of the following reasons EXCEPT for.
- A. the size of the firm's marginal tax rate
 - B. the amount of transactions costs incurred.
 - C. . investor speculation
 - D. the irregular exercise and sale of rights over the subscription period.

ANSWER: A

194. . In calculating the value of one right when the stock is selling "rights-on," the analyst needs to know the number of rights needed to buy one share of stock and

- A. . the subscription price per share.
- B. the transactions costs involved.
- C. the price-earnings ratio of the firm's stock
- D. the length of the rights offering period.

ANSWER: A

195. To say that there is "asymmetric information" in the issuing of common stock or debt means that

- A. investors have nearly perfect information
- B. the markets have nearly perfect information
- C. investors have more accurate information than management has.
- D. . management has more accurate information than investors have

ANSWER: D

196. A best efforts offering is sometimes used in connection with a of new, long-term securities.

- A. private placement
- B. privileged subscription.
- C. public issue.
- D. all of the above.

ANSWER: C

197. A company can ensure the complete success of a rights offering by making use of a .

- A. standby arrangement.
- B. oversubscription privilege.
- C. green shoe provision
- D. shelf registration.

ANSWER: A

198. Financial intermediaries

- A. do not invest in new long-term securities
- B. include insurance companies and pension funds.
- C. include the national and regional stock exchanges
- D. are usually underwriting syndicates.

ANSWER: B

199. Financial intermediaries

- A. a goodwill gesture by a "white knight".
- B. a would-be acquirer's friendly takeover attempt
- C. a would-be acquirer's offer to buy stock directly from shareholders.
- D. viewed as sexual harassment when it occurs in the workplace

ANSWER: A

200. Recent accounting changes in the US

- A. eliminated the purchase method, allowing only the pooling-of-interests method for mergers and acquisitions
- B. eliminated the pooling-of-interests method, allowing only the purchase method for mergers and acquisitions
- C. allow for both the purchase method and the pooling-of-interests method for mergers and acquisitions.
- D. outlawed the recording of goodwill for any merger or acquisition

ANSWER: B

201. Which asset-liability combination would most likely result in the firm's having the greatest risk of technical insolvency?

- A. Increasing current assets while lowering current liabilities
- B. Increasing current assets while incurring more current liabilities
- C. Reducing current assets, increasing current liabilities, and reducing long-term debt.
- D. Replacing short-term debt with equity.

ANSWER: C

202. Which of the following illustrates the use of a hedging (or matching) approach to financing?

- A. Short-term assets financed with long-term liabilities
- B. Permanent working capital financed with long-term liabilities
- C. Short-term assets financed with equity
- D. All assets financed with a 50 percent equity, 50 percent long-term debt mixture

ANSWER: B

203. Financing a long-lived asset with short-term financing would be.

- A. an example of "moderate risk -- moderate (potential) profitability" asset financing
- B. . an example of "low risk -- low (potential) profitability" asset financing
- C. an example of "high risk -- high (potential) profitability" asset financing.
- D. an example of the "hedging approach" to financing.

ANSWER: C

204. Net working capital refers to

- A. total assets minus fixed assets.
- B. current assets minus current liabilities.
- C. current assets minus inventories
- D. current assets

ANSWER: B

205. Permanent working capital.

- A. varies with seasonal needs.
- B. includes fixed assets.
- C. . is the amount of current assets required to meet a firm's long-term minimum needs.
- D. includes accounts payable.

ANSWER: C

206. Spontaneous financing includes.

- A. accounts receivable.
- B. accounts payable
- C. short-term loans
- D. a line of credit

ANSWER: B

207. _____ varies inversely with profitability.

- A. Liquidity
- B. Risk
- C. Blue.
- D. False.

ANSWER: A

208. In deciding the appropriate level of current assets for the firm management is confronted with

- A. a trade off between profitability and risk
- B. a trade off between liquidity and marketability.

- C. a trade off between equity and debt.
- D. Trade off between current assets and profitability.

ANSWER: A

209. Which of the following would be consistent with a more aggressive approach to financing working capital?

- A. Financing short-term needs with short-term funds.
- B. Financing permanent inventory build-up with long-term debt
- C. Financing seasonal needs with short-term funds
- D. Financing some long-term needs with short-term funds

ANSWER: D

210. In finance, working capital means the same thing as.

- A. total assets.
- B. fixed assets.
- C. current assets.
- D. current assets minus current liabilities

ANSWER: C

211. A company can ensure the complete success of a rights offering by making use of a .

- A. standby arrangement.
- B. oversubscription privilege.
- C. green shoe provision.
- D. shelf registration

ANSWER: D

212. permits what is known as a shelf registration.

- A. SEC Rule 144
- B. SEC Rule 144a
- C. SEC Rule 415.
- D. SEC Form 13D.

ANSWER: A

213. In a common stock rights offering the subscription price is generally.

- A. set equal to the current market price of the stock
- B. set below the current market price of the stock.
- C. set above the current market price of the stock.
- D. set after the stock goes ex-rights

ANSWER: B

214. A preliminary prospectus is known as a.

- A. Golden parachute.
- B. Red herring
- C. Blue sky.
- D. Green shoe.

ANSWER: A

215. Letter stock is.

- A. A handwritten certificate representing a corporate IOU
- B. Amass mailing offering a security for sale.
- C. Securities issued by the United States Postal Service.
- D. Privately placed common stock that cannot be immediately resold to the general public.

ANSWER: A

216. The main focus of finance for the last 40 years has been.

- A. Mergers and acquisitions.
- B. Conglomerate firms.
- C. Inflation.
- D. Risk-return relationships.

ANSWER: A

217. The mix of debt and equity in a firm is referred to as the firms.

- A. Primary capital.
- B. Capital composition.
- C. Cost of capital.
- D. Capital structure.

ANSWER: D

218. The allocation of capital is determined by.

- A. expected rates of return.
- B. the Bank of Canada.
- C. the initial sale of securities in the primary market.
- D. the size of the federal debt.

ANSWER: A

219. Capital is allocated by financial markets by.

- A. A lottery system between investment dealers.
- B. Pricing securities based on their risk and expected future cash flows.
- C. By pricing risky securities higher than low-risk securities.
- D. By a government risk-rating system based on AAA for low risk and CCC for high risk.

ANSWER: B

220. Agency theory examines the.

- A. Relationship between the owners and managers of the firm.
- B. Insurability of the firms assets.
- C. Relationship between dividend policy and firm value.
- D. Value of the firm relative to other firms in the industry.

ANSWER: A

221. A main benefit to the corporate form of organization is.

- A. Double taxation of corporate income.
- B. Simplicity of decision making and low organizational complexity.
- C. Limited liability for the corporate shareholders.
- D. A major management role exists for the firm's owners.

ANSWER: C

222. Which of the following are not among the daily activities of financial management?

- A. Sale of shares and bonds.
- B. Credit management.
- C. Inventory control.
- D. The receipt and disbursement of funds.

ANSWER: A

223. The ultimate measure of performance is.

- A. amount of the firms earnings.
- B. the how the earnings are valued by the investor.
- C. the firms profit margin.
- D. return on the firm's total assets.

ANSWER: B

224. The field of finance is closely related to the fields of.

- A. statistics and economics.
- B. statistics and risk analysis.
- C. economics and accounting.
- D. accounting and comparative return analysis.

ANSWER: C

225. The controllers responsibilities are primarily in nature, while the treasurers responsibilities are primarily related to

- A. operational; financial management.
- B. financial management; accounting.
- C. accounting; financial management.
- D. financial management; operations.

ANSWER: C

226. Retained earnings for the base year equals 100.0 percent. You must be looking at.

- A. common-size balance sheet.
- B. common-size income statement.
- C. indexed balance sheet.
- D. indexed income statement.

ANSWER: C

227. A company can improve (lower) its debt to total assets ratio by doing which of the following?

- A. Borrow more.
- B. Shift short-term to long-term debt.
- C. Shift long-term to short-term debt.
- D. Sell common stock.

ANSWER: D

228. . Which of the following would NOT improve the current ratio?

- A. Borrow short term to finance additional fixed assets.
- B. Issue long-term debt to buy inventory.
- C. Sell common stock to reduce current liabilities.
- D. Sell fixed assets to reduce accounts payable.

ANSWER: A

229. . _____ refers to meeting the needs of the present without compromising the ability of future generations to meet their own needs.

- A. Corporate Social Responsibility (CSR).
- B. Sustainability
- C. Convergence.
- D. Green Economics.

ANSWER: B

230. The decision function of financial management can be broken down into the decisions.

- A. financing and investment.
- B. investment, financing, and asset management.
- C. financing and dividend
- D. capital budgeting, cash management, and credit management.

ANSWER: B

231. The long run objective of financial management is to

- A. Maximize earnings per share.
- B. Maximize the value of the firm's common stock.
- C. Maximize return on investment.
- D. Maximize market share.

ANSWER: A

232. The _____ decision involves efficiently managing the assets on the balance sheet on a day to day basis especially current assets.

- A. asset management.
- B. Financing.
- C. Investment.
- D. Accounting.

ANSWER: C

233. To whom does the Treasurer most likely report?

- A. Chief Financial Officer.
- B. Vice President of Operations.
- C. Chief Executive Officer
- D. Board of Directors.

ANSWER: A

234. _____ is concerned with the maximization of a firms earnings after taxes

- A. Shareholder wealth maximization.
- B. Profit maximization.
- C. Stakeholder maximization.
- D. EPS maximization

ANSWER: A

235. _____ is concerned with the acquisition financing and management of assets with some overall goal in mind

- A. Financial management.
- B. Profit maximization.
- C. Agency theory.
- D. Social responsibility.

ANSWER: A

236. What is a business organizational model that involves the large-scale outsourcing of business functions?

- A. Virtual corporation.
- B. Joint venture.
- C. Corporate liquidation.
- D. Equity carve-out.

ANSWER: D

237. Which one of the following creates a brand new firm by merging existing entities?

- A. Acquisition of stock
- B. Merger.
- C. Shared agreement.
- D. Consolidation.

ANSWER: D

238. Which one of the following statements is correct?

- A. With a consolidation, the acquiring firm keeps its legal existence but the acquired firm does not.
- B. The acquiring firm acquires the assets, but not the liabilities, of the acquired firm in a merger.

- C. When Babco acquired Sitco it was most likely a consolidation because the combined firm's name was Basit.
- D. The key difference between a merger and a consolidation is that a merger creates an entirely new firm whereas a consolidation does not
- ANSWER: C

239. Which one of the following is a transaction which must be approved by a formal vote of the shareholders of the selling firm and which when completed leaves the selling firm as a corporate shell?
- A. Consolidation
 - B. Merger.
 - C. Acquisition of stock.
 - D. Acquisition of assets.
- ANSWER: B

240. The title for each asset owned by the acquired, or target, firm must be officially transferred in which one of the following?
- A. Acquisition of assets
 - B. Tender offer.
 - C. Merger.
 - D. Acquisition of stock.
- ANSWER: A

241. A merger in which an entirely new firm is created and both the acquired and acquiring firms cease to exist is called a:
- A. Divestiture
 - B. Consolidation.
 - C. Tender offer.
 - D. Spin off.
- ANSWER: B

242. A public offer by one firm to directly buy the shares of another firm is called a:
- A. Merger.
 - B. Consolidation.
 - C. Tender offer
 - D. Spinoff.
- ANSWER: C

243. . The acquisition of a firm in the same industry as the bidder is called a _____ acquisition
- A. Conglomerate.
 - B. Forward.
 - C. Backward.
 - D. Horizontal.
- ANSWER: D

244. An attempt to gain control of a firm by soliciting a sufficient number of stockholder votes to replace the current board of directors is called a:
- A. Tender offer
 - B. Proxy contest.
 - C. Going-private transaction.
 - D. Leveraged buyout.
- ANSWER: B

245. A business deal in which all publicly owned stock in a firm is replaced with complete equity ownership by a private group is called a:

- A. Tender offer.
- B. Proxy contest.
- C. Going-private transaction.
- D. Leveraged buyout.

ANSWER: C

246. The positive incremental net gain associated with the combination of two firms through a merger or acquisition is called:

- A. The agency conflict.
- B. Goodwill
- C. The merger cost.
- D. The consolidation effect.

ANSWER: D

247. . A contract wherein the bidding firm agrees to limit its holdings in the target firm is called a:

- A. Supermajority amendment
- B. Standstill agreement.
- C. Greenmail provision
- D. Poison pill amendment

ANSWER: B

248. . If Microsoft were to acquire U.S. Airways, the acquisition would be classified as a _____ acquisition

- A. Horizontal.
- B. Longitudinal.
- C. Conglomerate
- D. Vertical.

ANSWER: C

249. A reason for acquisitions is synergy. Synergy includes

- A. Revenue enhancements.
- B. Cost reductions.
- C. Lower taxes.
- D. . All of the above

ANSWER: D

250. . Firm A and Firm B join to create Firm AB. This is an example of

- A. A tender offer.
- B. An acquisition of assets.
- C. An acquisition of stock.
- D. A consolidation.

ANSWER: D