Chapter 1

*Student: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

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| 1. | As finance emerged as a new field, much emphasis was placed on mergers and acquisitions.    True    False |

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| 2. | Inflation is assumed to be a temporary problem that does not affect financial decisions.    True    False |

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| 3. | Financial Capital is composed of long-term plant and equipment, as well as other tangible investments.    True    False |

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| 4. | Real Capital is composed of long-term plant and equipment.    True    False |

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| 5. | During the 1930s, financial practice revolved around such topics as the preservation of capital, maintenance of liquidity, reorganization of financially troubled corporations and bankruptcy.    True    False |

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| 6. | In the mid 1950s, finance began to change to a more analytical, decision-oriented approach.    True    False |

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| 7. | Recently, the emphasis of financial management has been on the relationship between risk and return.    True    False |

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| 8. | The first Nobel Prizes given to finance professors were for their contributions to capital structure theory and portfolio theories of risk and return.    True    False |

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| 9. | The Internet impacts e-commerce by creating a mechanism for improved communications between a business, its customers, and its suppliers.    True    False |

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| 10. | The Internet has accounted for an acceleration of productivity for "old economy" firms.    True    False |

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| 11. | The Internet is responsible for many new business models.    True    False |

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| 12. | Businesses will increasingly rely on B2B Internet applications to speed up the cash flows through their firms.    True    False |

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| 13. | The sole proprietorship represents single-person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs.    True    False |

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| 14. | Profits of sole proprietorships are taxed at corporate tax rates.    True    False |

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| 15. | There is unlimited liability in a general partnership.    True    False |

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| 16. | The most common partnership arrangement carries limited liability to the partners.    True    False |

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| 17. | A limited partnership limits the profits partners may receive.    True    False |

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| 18. | In terms of revenues and profits, the corporation is by far the most important form of business organization in the United States.    True    False |

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| 19. | Dividends paid to corporate stockholders have already been taxed once as corporate income.    True    False |

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| 20. | One advantage of the corporate form of organization is that income received by stockholders is not taxable since the corporation already paid taxes on the income distributed.    True    False |

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| 21. | A corporation must have more than 75 stockholders to qualify for Subchapter S designation.    True    False |

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| 22. | Profits of a Subchapter S corporation are taxed at corporate tax rates.    True    False |

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| 23. | The formation of a Subchapter S corporation is a way to circumvent the double taxation of a small corporation.    True    False |

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| 24. | Corporate governance issues have become less important to the financial community during the first decade of the new millennium.    True    False |

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| 25. | The issues of corporate governance are really agency problems.    True    False |

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| 26. | Agency Theory examines the relationship between companies and their customers.    True    False |

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| 27. | Institutional investors have had increasing influence over corporations with their ability to vote large blocks of stock and replace poor performing boards of directors.    True    False |

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| 28. | Agency theory assumes that corporate managers act to increase the wealth of corporate shareholders.    True    False |

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| 29. | The Sarbanes Oxley Act reduced agency conflicts by giving corporate managers greater flexibility to select their preferred candidates to the Board of Directors.    True    False |

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| 30. | A major focus of the Sarbanes Oxley Act is to make sure that publicly traded companies accurately present their assets, liabilities and income in their financial statements.    True    False |

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| 31. | The Sarbanes Oxley Act is primarily intended to increase public scrutiny of private companies that had previously been exempt from many public disclosure requirements.    True    False |

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| 32. | Timing is not a particularly important consideration in financial decisions.    True    False |

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| 33. | The higher the profit of a firm, the higher the value the firm is assured of receiving in the market.    True    False |

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| 34. | There are some serious problems with the financial goal of maximizing the earnings of the firm.    True    False |

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| 35. | Maximizing the earnings of the firm is the goal of financial management.    True    False |

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| 36. | Because socially desirable goals can impede profitability in many instances, managers should not try to operate under the assumption of wealth maximization.    True    False |

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| 37. | Insider trading involves the use of information not available to the general public to make profits from trading in a company's stock.    True    False |

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| 38. | Social responsibility and profit maximization are synonymous.    True    False |

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| 39. | Financial markets exist as a vast global network of individuals and financial institutions that may be lenders, borrowers, or owners of public companies worldwide.    True    False |

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| 40. | Money markets refer to those markets dealing with short-term securities having a life of one year or less.    True    False |

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| 41. | Money markets refer to markets where excess corporate cash is exchanged for foreign currencies that can earn a higher return than domestic money.    True    False |

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| 42. | Capital markets refer to those markets dealing with short-term securities having a life of one year or less.    True    False |

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| 43. | The primary market includes the sale of securities by way of initial public offerings.    True    False |

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| 44. | High quality initial public offerings are usually sold in a primary market, such as the New York Stock Exchange. However, low-quality stocks must usually be sold in secondary markets, such as NASDAQ.    True    False |

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| 45. | Although NASDAQ is a secondary market, some of the firms traded there, such as Microsoft, are large enough to move to the primary market if they so desire.    True    False |

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| 46. | The secondary market characteristically has had stable prices over the past 20 years.    True    False |

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| 47. | In the United States, stocks sold on either the New York Stock Exchange or NASDAQ are considered sold in the primary market.    True    False |

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| 48. | New issues are sold in the secondary market.    True    False |

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| 49. | Existing securities are traded in the secondary market.    True    False |

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| 50. | Many companies have cross-listed their stock on multiple international stock exchanges and more than several hundred foreign companies have listed their shares on the New York Stock Exchange.    True    False |

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| 51. | Higher return always induces stockholders to invest in a company.    True    False |

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| 52. | Social responsibility is an expense and thus should be avoided by financial managers because it will lead to loss of income.    True    False |

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| 53. | Financial management requires both short-term activities as well as long-term planning such as raising funds.    True    False |

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| 54. | One of the primary disadvantages of maximizing shareholder value is that it only provides a short-term perspective.    True    False |

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| 55. | If a company has a written code of ethics, they will generally avoid ethical problems.    True    False |

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| 56. | Risk management will be an important factor over the next decade.    True    False |

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| 57. | Which of the following did not contribute to the financial crisis?      |  |  | | --- | --- | | A. | The change from mark-to-market accounting to |  |  |  | | --- | --- | | B. | Solid credit ratings from the ratings agencies |  |  |  | | --- | --- | | C. | The extension of credit to high-risk borrowers |  |  |  | | --- | --- | | D. | The takeover of JPMorgan Chase by Bear Sterns |  |  |  | | --- | --- | | E. | Mark this response if all of the above contributed to the financial crisis | |

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| 58. | Credit swaps are:      |  |  | | --- | --- | | A. | an insurance product designed to protect financial institutions from customers who default on their loans. |  |  |  | | --- | --- | | B. | securities with a maturity of less than 1 year. |  |  |  | | --- | --- | | C. | the result of a leveling off or slowing down of price increases. |  |  |  | | --- | --- | | D. | market trades in previously issued securities. |  |  |  | | --- | --- | | E. | none of the above. | |

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| 59. | What is the primary goal of financial management?      |  |  | | --- | --- | | A. | Increased earnings |  |  |  | | --- | --- | | B. | Maximizing cash flow |  |  |  | | --- | --- | | C. | Maximizing shareholder wealth |  |  |  | | --- | --- | | D. | Minimizing risk of the firm | |

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| 60. | In the past, the study of finance has included      |  |  | | --- | --- | | A. | mergers and acquisitions. |  |  |  | | --- | --- | | B. | raising capital. |  |  |  | | --- | --- | | C. | bankruptcy. |  |  |  | | --- | --- | | D. | all of these. | |

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| 61. | Professor Merton Miller received the Nobel prize in economics for his work on      |  |  | | --- | --- | | A. | dividend policy. |  |  |  | | --- | --- | | B. | investment theory. |  |  |  | | --- | --- | | C. | working capital management. |  |  |  | | --- | --- | | D. | capital structure theory. | |

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| 62. | Professors Harry Markowitz and William Sharpe received their Nobel prize in economics for their contributions to the      |  |  | | --- | --- | | A. | options pricing model. |  |  |  | | --- | --- | | B. | theories of working capital management. |  |  |  | | --- | --- | | C. | theories of risk-return and portfolio theory. |  |  |  | | --- | --- | | D. | theories of international capital budgeting. | |

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| 63. | Proper risk-return management means that      |  |  | | --- | --- | | A. | the firm should take as few risks as possible. |  |  |  | | --- | --- | | B. | the firm must determine an appropriate trade-off between risk and return. |  |  |  | | --- | --- | | C. | the firm should earn the highest return possible. |  |  |  | | --- | --- | | D. | the firm should value future profits more highly than current profits. | |

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| 64. | One of the major disadvantages of a sole proprietorship is      |  |  | | --- | --- | | A. | that there is unlimited liability to the owner. |  |  |  | | --- | --- | | B. | the simplicity of decision making. |  |  |  | | --- | --- | | C. | low organizational costs. |  |  |  | | --- | --- | | D. | low operating costs. | |

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| 65. | One of the major advantages of a sole proprietorship is      |  |  | | --- | --- | | A. | that the owner has limited liability. |  |  |  | | --- | --- | | B. | that stock in the proprietorship can be easily transferred. |  |  |  | | --- | --- | | C. | that it is exempt from many tax rules that would otherwise apply when employees are hired by the firm. |  |  |  | | --- | --- | | D. | low operating costs. | |

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| 66. | The partnership form of an organization      |  |  | | --- | --- | | A. | avoids the double taxation of earnings and dividends found in the corporate form of organization. |  |  |  | | --- | --- | | B. | usually provides limited liability to the partners. |  |  |  | | --- | --- | | C. | has unlimited life. |  |  |  | | --- | --- | | D. | simplifies decision making. | |

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| 67. | A corporation is      |  |  | | --- | --- | | A. | owned by stockholders who enjoy the privilege of limited liability. |  |  |  | | --- | --- | | B. | easily divisible between owners. |  |  |  | | --- | --- | | C. | a separate legal entity with perpetual life. |  |  |  | | --- | --- | | D. | all of these. | |

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| 68. | With a Subchapter S corporation      |  |  | | --- | --- | | A. | income is taxed as direct income to stockholders. |  |  |  | | --- | --- | | B. | stockholders have the same liability as members of a partnership. |  |  |  | | --- | --- | | C. | the number of stockholders is unlimited. |  |  |  | | --- | --- | | D. | life of the corporation is limited. | |

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| 69. | A Subchapter S corporation      |  |  | | --- | --- | | A. | is similar to a partnership in that it carries unlimited liability. |  |  |  | | --- | --- | | B. | is a separate legal entity which is treated like a normal corporation. |  |  |  | | --- | --- | | C. | has all the organizational benefits of a corporation and its income is only taxed once. |  |  |  | | --- | --- | | D. | all of these. | |

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| 70. | Corporate governance is the      |  |  | | --- | --- | | A. | relationship and exercise of oversight by the board of directors of the company. |  |  |  | | --- | --- | | B. | relationship between the chief financial officer and institutional investors. |  |  |  | | --- | --- | | C. | operation of a company by the chief executive officer (CEO) and other senior executives on the management team. |  |  |  | | --- | --- | | D. | governance of the company by the board of directors with a focus on social responsibility. | |

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| 71. | Many companies such as Tyco, Enron, and WorldCom that suffered financial distress in the late 1990s and early 2000s,      |  |  | | --- | --- | | A. | committed fraud. |  |  |  | | --- | --- | | B. | had failed corporate governance oversight. |  |  |  | | --- | --- | | C. | went bankrupt. |  |  |  | | --- | --- | | D. | all of these are true. | |

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| 72. | Agency theory examines the relationship between the      |  |  | | --- | --- | | A. | shareholders of the firm and the firm's investment banker. |  |  |  | | --- | --- | | B. | owners of the firm and the managers of the firm. |  |  |  | | --- | --- | | C. | board of directors and large institutional investors. |  |  |  | | --- | --- | | D. | shareholders and the firm's transfer agent. | |

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| 73. | Agency theory would imply that conflicts are more likely to occur between management and shareholders when      |  |  | | --- | --- | | A. | the company is owned and operated by the same person. |  |  |  | | --- | --- | | B. | management acts in the best interests of maximizing shareholder wealth. |  |  |  | | --- | --- | | C. | the chairman of the board is also the chief executive officer (CEO). |  |  |  | | --- | --- | | D. | the board of directors exerts strong and involved oversight of management. | |

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| 74. | Agency theory deals with the issue of      |  |  | | --- | --- | | A. | when to hire an agent to represent the firm in negotiations. |  |  |  | | --- | --- | | B. | the legal liabilities of a firm if an employee, acting as the firm's agent, injures someone. |  |  |  | | --- | --- | | C. | the limitations placed on an employee acting as the firm's agent to obligate or bind the firm. |  |  |  | | --- | --- | | D. | the conflicts that can arise between the viewpoints and motivations of a firm's owners and managers. | |

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| 75. | Agency problems are least likely to arise in which organizational form?      |  |  | | --- | --- | | A. | Sole proprietorship |  |  |  | | --- | --- | | B. | Limited partnership |  |  |  | | --- | --- | | C. | Corporation |  |  |  | | --- | --- | | D. | Subchapter S corporation | |

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| 76. | Institutional investors are important in today's business world because      |  |  | | --- | --- | | A. | as large investors they have more say in how businesses are managed. |  |  |  | | --- | --- | | B. | they have a fiduciary responsibility to the workers and investors that they represent to see that the firms they own are managed in an ethical way. |  |  |  | | --- | --- | | C. | as a group they can vote large blocks of stock for the election of board members. |  |  |  | | --- | --- | | D. | all of these. | |

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| 77. | The increasing percentage ownership of public corporations by institutional investors has      |  |  | | --- | --- | | A. | had no effect on corporate management. |  |  |  | | --- | --- | | B. | created higher returns for the stock market in general. |  |  |  | | --- | --- | | C. | created more pressure on public companies to manage their firms more efficiently. |  |  |  | | --- | --- | | D. | taken away the voice of the individual investor. | |

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| 78. | The Sarbanes-Oxley Act was passed in an effort to      |  |  | | --- | --- | | A. | protect small business from large corporations dominating the market. |  |  |  | | --- | --- | | B. | ensure that partnerships divide profits among partners in a fair manner. |  |  |  | | --- | --- | | C. | guarantee outside auditors can control corporate accounting practices. |  |  |  | | --- | --- | | D. | control corrupt corporate behavior. | |

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| 79. | The Sarbanes-Oxley Act set up the Public Company Accounting Oversight Board with the responsibility for all of the following except      |  |  | | --- | --- | | A. | auditing standards within companies. |  |  |  | | --- | --- | | B. | controlling the quality of audits. |  |  |  | | --- | --- | | C. | Certifying the competence of financial executives. |  |  |  | | --- | --- | | D. | setting rules and standards for the independence of auditors. | |

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| 80. | A financial manager's goal of maximizing current or short-term earnings may not be appropriate because      |  |  | | --- | --- | | A. | it fails to consider the timing of the benefits. |  |  |  | | --- | --- | | B. | increased earnings may be accompanied by unacceptably higher levels of risk. |  |  |  | | --- | --- | | C. | earnings are subjective; they can be defined in various ways such as accounting or economic earnings. |  |  |  | | --- | --- | | D. | all of these. | |

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| 81. | Maximization of shareholder wealth is a concept in which      |  |  | | --- | --- | | A. | increased earnings is of primary importance. |  |  |  | | --- | --- | | B. | profits are maximized on a quarterly basis. |  |  |  | | --- | --- | | C. | virtually all earnings are paid as dividends to common stockholders. |  |  |  | | --- | --- | | D. | optimally increasing the long-term value of the firm is emphasized. | |

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| 82. | Which of the following is not a true statement about the goal of maximizing shareholder wealth?      |  |  | | --- | --- | | A. | It takes into account the timing of cash-flows. |  |  |  | | --- | --- | | B. | It is a short-run point of view which takes risk into account. |  |  |  | | --- | --- | | C. | It considers risk as a factor. |  |  |  | | --- | --- | | D. | None of these. | |

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| 83. | As mergers, acquisitions, and restructuring have increased in importance, agency theory has become more important in assessing whether      |  |  | | --- | --- | | A. | a stock repurchase should be undertaken. |  |  |  | | --- | --- | | B. | shareholder goals are truly being achieved by managers in the long run. |  |  |  | | --- | --- | | C. | managers are actually agents or only employees of the firm. |  |  |  | | --- | --- | | D. | managers and owners are actually the same people with the same interests. | |

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| 84. | Insider trading occurs when      |  |  | | --- | --- | | A. | someone has information not available to the public which they use to profit from trading in stocks. |  |  |  | | --- | --- | | B. | corporate officers buy stock in their company. |  |  |  | | --- | --- | | C. | lawyers, investment bankers, and others buy common stock in companies represented by their firms. |  |  |  | | --- | --- | | D. | any stock transactions occur in violation of the Federal Trade Commissions restrictions on monopolies. | |

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| 85. | The major difficulty in most insider-trading cases has been      |  |  | | --- | --- | | A. | that lenient judges have simply released the guilty individuals. |  |  |  | | --- | --- | | B. | that insider trading, even though illegal, actually serves a beneficial economic and financial purpose. |  |  |  | | --- | --- | | C. | that inside trades have not been legally well defined. |  |  |  | | --- | --- | | D. | inside trades actually have a beneficial effect on the wealth of all stockholders. | |

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| 86. | Money markets would include which of the following securities?      |  |  | | --- | --- | | A. | Common stock and corporate bonds. |  |  |  | | --- | --- | | B. | Treasury bills and commercial paper. |  |  |  | | --- | --- | | C. | Certificates of deposit and preferred stock. |  |  |  | | --- | --- | | D. | All of these. | |

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| 87. | Capital markets do not include which of the following securities?      |  |  | | --- | --- | | A. | Common stock |  |  |  | | --- | --- | | B. | Commercial paper |  |  |  | | --- | --- | | C. | Government bonds |  |  |  | | --- | --- | | D. | Preferred stock | |

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| 88. | When a corporation uses the financial markets to raise new funds, the sale of securities is made in the      |  |  | | --- | --- | | A. | primary market. |  |  |  | | --- | --- | | B. | secondary market. |  |  |  | | --- | --- | | C. | on-line market. |  |  |  | | --- | --- | | D. | third market. | |

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| 89. | Companies that have higher risk than a competitor in the same industry will generally have      |  |  | | --- | --- | | A. | to pay a higher interest rate than its competitors. |  |  |  | | --- | --- | | B. | a lower relative stock price than its competitors. |  |  |  | | --- | --- | | C. | a higher cost of funds than its competitors. |  |  |  | | --- | --- | | D. | all of these. | |

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| 90. | The financial markets allocate capital to corporations by      |  |  | | --- | --- | | A. | reflecting expectations of the market participants in the prices of the corporations. |  |  |  | | --- | --- | | B. | requiring higher returns from companies with lower risk than their competitors. |  |  |  | | --- | --- | | C. | rewarding companies with expected high returns with lower relative stock prices. |  |  |  | | --- | --- | | D. | relying on the opinion of investment bankers. | |

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| 91. | Corporate restructuring has been one result of more institutional ownership. Restructuring can cause      |  |  | | --- | --- | | A. | changes in the assets and liabilities of the firm. |  |  |  | | --- | --- | | B. | the sale of low-profit margin divisions. |  |  |  | | --- | --- | | C. | the removal of current management and/or large reductions in the workforce. |  |  |  | | --- | --- | | D. | all of these. | |

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| 92. | A corporate buy-back, or the repurchasing of shares, is      |  |  | | --- | --- | | A. | an example of balance sheet restructuring. |  |  |  | | --- | --- | | B. | an excellent source of profits when the firm's stock is over-priced. |  |  |  | | --- | --- | | C. | a method of reducing the debt-to-equity ratio. |  |  |  | | --- | --- | | D. | all of these. | |

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| 93. | A corporate restructuring can result in      |  |  | | --- | --- | | A. | changes in the capital structure. |  |  |  | | --- | --- | | B. | selling of low-profit margin divisions. |  |  |  | | --- | --- | | C. | reductions in the work force. |  |  |  | | --- | --- | | D. | all of these. | |

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| 94. | Which of the following is not an example of restructuring as discussed in the text?      |  |  | | --- | --- | | A. | Repurchase of common stock |  |  |  | | --- | --- | | B. | Creating a new organizational chart |  |  |  | | --- | --- | | C. | Merging with companies in related industries |  |  |  | | --- | --- | | D. | Divesting of an unprofitable division | |

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| 95. | Future financial managers will need to understand      |  |  | | --- | --- | | A. | international cash flows. |  |  |  | | --- | --- | | B. | computerized funds transfers. |  |  |  | | --- | --- | | C. | international currency hedging strategies. |  |  |  | | --- | --- | | D. | all of these. | |

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| 96. | The increase in the internationalization of financial markets has led to      |  |  | | --- | --- | | A. | companies searching the global financial markets for low cost funds. |  |  |  | | --- | --- | | B. | an increase in American Depository Receipts (ADRs) on the New York Stock Exchange. |  |  |  | | --- | --- | | C. | an increase in debt obligations denominated in foreign currency on U.S. corporate balance sheets. |  |  |  | | --- | --- | | D. | all of these. | |

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| 97. | The internationalization of the financial markets has      |  |  | | --- | --- | | A. | allowed firms such as McDonalds to raise capital around the world. |  |  |  | | --- | --- | | B. | raised the cost of capital. |  |  |  | | --- | --- | | C. | forced companies to price everything in U.S. dollars. |  |  |  | | --- | --- | | D. | all of these. | |

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| 98. | The Internet has affected the financial markets by      |  |  | | --- | --- | | A. | creating more competition between markets. |  |  |  | | --- | --- | | B. | pushing the cost of trading down. |  |  |  | | --- | --- | | C. | forcing brokerage companies to consolidate. |  |  |  | | --- | --- | | D. | all of these. | |

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| 99. | Increased productivity due to technology has      |  |  | | --- | --- | | A. | increased corporations' reliance on debt for capital expansion needs. |  |  |  | | --- | --- | | B. | created larger asset values on the firm's historical balance sheet. |  |  |  | | --- | --- | | C. | made it cheaper (in terms of interest costs) for firms to borrow money. |  |  |  | | --- | --- | | D. | helped to keep corporate costs in check. | |

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| 100. | Companies that perform well      |  |  | | --- | --- | | A. | can sell their stock for a lower price |  |  |  | | --- | --- | | B. | can minimize dilution when issuing new shares |  |  |  | | --- | --- | | C. | can issue debt at a lower interest rate |  |  |  | | --- | --- | | D. | two of the above | |

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| 101. | The entity that is responsible for establishing the allocation and cost of capital is      |  |  | | --- | --- | | A. | the corporation |  |  |  | | --- | --- | | B. | the economy |  |  |  | | --- | --- | | C. | investors |  |  |  | | --- | --- | | D. | customers | |

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| 102. | Benefits of social responsibility often include      |  |  | | --- | --- | | A. | Better reputation |  |  |  | | --- | --- | | B. | Higher short-term earnings |  |  |  | | --- | --- | | C. | Lower expenses |  |  |  | | --- | --- | | D. | Two of the above | |

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| 103. | Regarding risk levels, financial managers should      |  |  | | --- | --- | | A. | pursue higher risk projects because they increase value |  |  |  | | --- | --- | | B. | avoid higher risk projects because they destroy value |  |  |  | | --- | --- | | C. | focus primarily on market fluctuations |  |  |  | | --- | --- | | D. | evaluate investor's desire for risk | |

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| 104. | Match the following with the questions below:      |  |  |  | | --- | --- | --- | | 1. partnership | The ability to make profits on financial securities because of having Knowledge not available to the public. | \_\_\_\_ | | 2. subchapter S corporation | An agreement of partners specifying the ownership interest of a company. | \_\_\_\_ | | 3. insider trading | A form of organization that represents single person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs. | \_\_\_\_ | | 4. capital structure theory | Separate legal entity owned by shareholders who only have limited liability. | \_\_\_\_ | | 5. corporation | The study of the relative importance of debt and equity. | \_\_\_\_ | | 6. agency theory | Examines the relationship between the owners of the firm and the managers of the firm. | \_\_\_\_ | | 7. sole proprietorship | A form of ownership, in which profit is taxed as direct income to the stockholders and thus is only taxed once. | \_\_\_\_ | | 8. articles of partnership | A form of ownership that carries unlimited liability to the owners and where the profits are taxed at individual tax rates of the owners. | \_\_\_\_ | |

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| 105. | Match the following with the questions below:      |  |  |  | | --- | --- | --- | | 1. inflation | This form of capital is found on the balance sheet under long-term liabilities and equity. | \_\_\_\_ | | 2. primary market | The purchasing power of the dollar shrinks over time. | \_\_\_\_ | | 3. capital market | A market where the securities being traded are new public offerings. | \_\_\_\_ | | 4. secondary market | Securities with a maturity of less than 1 year. | \_\_\_\_ | | 5. financial capital | Redeploying the asset and liability structure of the firm. | \_\_\_\_ | | 6. disinflation | A leveling off or slowing down of price increases. | \_\_\_\_ | | 7. real capital | Market composed of common stock, preferred stock, commercial and government bonds and other long-term securities. | \_\_\_\_ | | 8. money market | This market trades previously issued securities. | \_\_\_\_ | | 9. restructuring | The high inflation rates of the 1980s caused this form of capital to hold its value better than other forms of capital during this time period. | \_\_\_\_ | |

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| 106. | As finance emerged as a new field, much emphasis was placed on mergers and acquisitions.    True    False |

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| 107. | Inflation is assumed to be a temporary problem that does not affect financial decisions.    True    False |

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| 108. | Financial Capital is composed of long-term plant and equipment, as well as other tangible investments.    True    False |

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| 109. | Real Capital is composed of long-term plant and equipment.    True    False |

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| 110. | During the 1930s, financial practice revolved around such topics as the preservation of capital, maintenance of liquidity, reorganization of financially troubled corporations and bankruptcy.    True    False |

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| 111. | In the mid 1950s, finance began to change to a more analytical, decision-oriented approach.    True    False |

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| 112. | Recently, the emphasis of financial management has been on the relationship between risk and return.    True    False |

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| 113. | The first Nobel Prizes given to finance professors were for their contributions to capital structure theory and portfolio theories of risk and return.    True    False |

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| 114. | The Internet impacts e-commerce by creating a mechanism for improved communications between a business, its customers, and its suppliers.    True    False |

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| 115. | The Internet has accounted for an acceleration of productivity for "old economy" firms.    True    False |

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| 116. | The Internet is responsible for many new business models.    True    False |

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| 117. | Businesses will increasingly rely on B2B Internet applications to speed up the cash flows through their firms.    True    False |

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| 118. | The sole proprietorship represents single-person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs.    True    False |

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| 119. | Profits of sole proprietorships are taxed at corporate tax rates.    True    False |

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| 120. | There is unlimited liability in a general partnership.    True    False |

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| 121. | The most common partnership arrangement carries limited liability to the partners.    True    False |

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| 122. | A limited partnership limits the profits partners may receive.    True    False |

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| 123. | In terms of revenues and profits, the corporation is by far the most important form of business organization in the United States.    True    False |

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| 124. | Dividends paid to corporate stockholders have already been taxed once as corporate income.    True    False |

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| 125. | One advantage of the corporate form of organization is that income received by stockholders is not taxable since the corporation already paid taxes on the income distributed.    True    False |

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| 126. | A corporation must have more than 75 stockholders to qualify for Subchapter S designation.    True    False |

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| 127. | Profits of a Subchapter S corporation are taxed at corporate tax rates.    True    False |

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| 128. | The formation of a Subchapter S corporation is a way to circumvent the double taxation of a small corporation.    True    False |

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| 129. | Corporate governance issues have become less important to the financial community during the first decade of the new millennium.    True    False |

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| 130. | The issues of corporate governance are really agency problems.    True    False |

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| 131. | Agency Theory examines the relationship between companies and their customers.    True    False |

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| 132. | Institutional investors have had increasing influence over corporations with their ability to vote large blocks of stock and replace poor performing boards of directors.    True    False |

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| 133. | Agency theory assumes that corporate managers act to increase the wealth of corporate shareholders.    True    False |

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| 134. | The Sarbanes Oxley Act reduced agency conflicts by giving corporate managers greater flexibility to select their preferred candidates to the Board of Directors.    True    False |

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| 135. | A major focus of the Sarbanes Oxley Act is to make sure that publicly traded companies accurately present their assets, liabilities and income in their financial statements.    True    False |

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| 136. | The Sarbanes Oxley Act is primarily intended to increase public scrutiny of private companies that had previously been exempt from many public disclosure requirements.    True    False |

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| 137. | Timing is not a particularly important consideration in financial decisions.    True    False |

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| 138. | The higher the profit of a firm, the higher the value the firm is assured of receiving in the market.    True    False |

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| 139. | There are some serious problems with the financial goal of maximizing the earnings of the firm.    True    False |

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| 140. | Maximizing the earnings of the firm is the goal of financial management.    True    False |

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| 141. | Because socially desirable goals can impede profitability in many instances, managers should not try to operate under the assumption of wealth maximization.    True    False |

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| 142. | Insider trading involves the use of information not available to the general public to make profits from trading in a company's stock.    True    False |

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| 143. | Social responsibility and profit maximization are synonymous.    True    False |

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| 144. | Financial markets exist as a vast global network of individuals and financial institutions that may be lenders, borrowers, or owners of public companies worldwide.    True    False |

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| 145. | Money markets refer to those markets dealing with short-term securities having a life of one year or less.    True    False |

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| 146. | Money markets refer to markets where excess corporate cash is exchanged for foreign currencies that can earn a higher return than domestic money.    True    False |

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| 147. | Capital markets refer to those markets dealing with short-term securities having a life of one year or less.    True    False |

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| 148. | The primary market includes the sale of securities by way of initial public offerings.    True    False |

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| 149. | High quality initial public offerings are usually sold in a primary market, such as the New York Stock Exchange. However, low-quality stocks must usually be sold in secondary markets, such as NASDAQ.    True    False |

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| 150. | Although NASDAQ is a secondary market, some of the firms traded there, such as Microsoft, are large enough to move to the primary market if they so desire.    True    False |

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| 151. | The secondary market characteristically has had stable prices over the past 20 years.    True    False |

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| 152. | In the United States, stocks sold on either the New York Stock Exchange or NASDAQ are considered sold in the primary market.    True    False |

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| 153. | New issues are sold in the secondary market.    True    False |

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| 154. | Existing securities are traded in the secondary market.    True    False |

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| 155. | Many companies have cross-listed their stock on multiple international stock exchanges and more than several hundred foreign companies have listed their shares on the New York Stock Exchange.    True    False |

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| 156. | Higher return always induces stockholders to invest in a company.    True    False |

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| 157. | Social responsibility is an expense and thus should be avoided by financial managers because it will lead to loss of income.    True    False |

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| 158. | Financial management requires both short-term activities as well as long-term planning such as raising funds.    True    False |

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| 159. | One of the primary disadvantages of maximizing shareholder value is that it only provides a short-term perspective.    True    False |

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| 160. | If a company has a written code of ethics, they will generally avoid ethical problems.    True    False |

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| 161. | Risk management will be an important factor over the next decade.    True    False |

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| 162. | Which of the following did not contribute to the financial crisis?      |  |  | | --- | --- | | A. | The change from mark-to-market accounting to |  |  |  | | --- | --- | | B. | Solid credit ratings from the ratings agencies |  |  |  | | --- | --- | | C. | The extension of credit to high-risk borrowers |  |  |  | | --- | --- | | D. | The takeover of JPMorgan Chase by Bear Sterns |  |  |  | | --- | --- | | E. | Mark this response if all of the above contributed to the financial crisis | |

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| 163. | Credit swaps are:      |  |  | | --- | --- | | A. | an insurance product designed to protect financial institutions from customers who default on their loans. |  |  |  | | --- | --- | | B. | securities with a maturity of less than 1 year. |  |  |  | | --- | --- | | C. | the result of a leveling off or slowing down of price increases. |  |  |  | | --- | --- | | D. | market trades in previously issued securities. |  |  |  | | --- | --- | | E. | none of the above. | |

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| 164. | What is the primary goal of financial management?      |  |  | | --- | --- | | A. | Increased earnings |  |  |  | | --- | --- | | B. | Maximizing cash flow |  |  |  | | --- | --- | | C. | Maximizing shareholder wealth |  |  |  | | --- | --- | | D. | Minimizing risk of the firm | |

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| 165. | In the past, the study of finance has included      |  |  | | --- | --- | | A. | mergers and acquisitions. |  |  |  | | --- | --- | | B. | raising capital. |  |  |  | | --- | --- | | C. | bankruptcy. |  |  |  | | --- | --- | | D. | all of these. | |

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| 166. | Professor Merton Miller received the Nobel prize in economics for his work on      |  |  | | --- | --- | | A. | dividend policy. |  |  |  | | --- | --- | | B. | investment theory. |  |  |  | | --- | --- | | C. | working capital management. |  |  |  | | --- | --- | | D. | capital structure theory. | |

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| 167. | Professors Harry Markowitz and William Sharpe received their Nobel prize in economics for their contributions to the      |  |  | | --- | --- | | A. | options pricing model. |  |  |  | | --- | --- | | B. | theories of working capital management. |  |  |  | | --- | --- | | C. | theories of risk-return and portfolio theory. |  |  |  | | --- | --- | | D. | theories of international capital budgeting. | |

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| 168. | Proper risk-return management means that      |  |  | | --- | --- | | A. | the firm should take as few risks as possible. |  |  |  | | --- | --- | | B. | the firm must determine an appropriate trade-off between risk and return. |  |  |  | | --- | --- | | C. | the firm should earn the highest return possible. |  |  |  | | --- | --- | | D. | the firm should value future profits more highly than current profits. | |

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| 169. | One of the major disadvantages of a sole proprietorship is      |  |  | | --- | --- | | A. | that there is unlimited liability to the owner. |  |  |  | | --- | --- | | B. | the simplicity of decision making. |  |  |  | | --- | --- | | C. | low organizational costs. |  |  |  | | --- | --- | | D. | low operating costs. | |

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| 170. | One of the major advantages of a sole proprietorship is      |  |  | | --- | --- | | A. | that the owner has limited liability. |  |  |  | | --- | --- | | B. | that stock in the proprietorship can be easily transferred. |  |  |  | | --- | --- | | C. | that it is exempt from many tax rules that would otherwise apply when employees are hired by the firm. |  |  |  | | --- | --- | | D. | low operating costs. | |

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| 171. | The partnership form of an organization      |  |  | | --- | --- | | A. | avoids the double taxation of earnings and dividends found in the corporate form of organization. |  |  |  | | --- | --- | | B. | usually provides limited liability to the partners. |  |  |  | | --- | --- | | C. | has unlimited life. |  |  |  | | --- | --- | | D. | simplifies decision making. | |

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| 172. | A corporation is      |  |  | | --- | --- | | A. | owned by stockholders who enjoy the privilege of limited liability. |  |  |  | | --- | --- | | B. | easily divisible between owners. |  |  |  | | --- | --- | | C. | a separate legal entity with perpetual life. |  |  |  | | --- | --- | | D. | all of these. | |

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| 173. | With a Subchapter S corporation      |  |  | | --- | --- | | A. | income is taxed as direct income to stockholders. |  |  |  | | --- | --- | | B. | stockholders have the same liability as members of a partnership. |  |  |  | | --- | --- | | C. | the number of stockholders is unlimited. |  |  |  | | --- | --- | | D. | life of the corporation is limited. | |

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| 174. | A Subchapter S corporation      |  |  | | --- | --- | | A. | is similar to a partnership in that it carries unlimited liability. |  |  |  | | --- | --- | | B. | is a separate legal entity which is treated like a normal corporation. |  |  |  | | --- | --- | | C. | has all the organizational benefits of a corporation and its income is only taxed once. |  |  |  | | --- | --- | | D. | all of these. | |

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| 175. | Corporate governance is the      |  |  | | --- | --- | | A. | relationship and exercise of oversight by the board of directors of the company. |  |  |  | | --- | --- | | B. | relationship between the chief financial officer and institutional investors. |  |  |  | | --- | --- | | C. | operation of a company by the chief executive officer (CEO) and other senior executives on the management team. |  |  |  | | --- | --- | | D. | governance of the company by the board of directors with a focus on social responsibility. | |

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| 176. | Many companies such as Tyco, Enron, and WorldCom that suffered financial distress in the late 1990s and early 2000s,      |  |  | | --- | --- | | A. | committed fraud. |  |  |  | | --- | --- | | B. | had failed corporate governance oversight. |  |  |  | | --- | --- | | C. | went bankrupt. |  |  |  | | --- | --- | | D. | all of these are true. | |

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| 177. | Agency theory examines the relationship between the      |  |  | | --- | --- | | A. | shareholders of the firm and the firm's investment banker. |  |  |  | | --- | --- | | B. | owners of the firm and the managers of the firm. |  |  |  | | --- | --- | | C. | board of directors and large institutional investors. |  |  |  | | --- | --- | | D. | shareholders and the firm's transfer agent. | |

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| 178. | Agency theory would imply that conflicts are more likely to occur between management and shareholders when      |  |  | | --- | --- | | A. | the company is owned and operated by the same person. |  |  |  | | --- | --- | | B. | management acts in the best interests of maximizing shareholder wealth. |  |  |  | | --- | --- | | C. | the chairman of the board is also the chief executive officer (CEO). |  |  |  | | --- | --- | | D. | the board of directors exerts strong and involved oversight of management. | |

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| 179. | Agency theory deals with the issue of      |  |  | | --- | --- | | A. | when to hire an agent to represent the firm in negotiations. |  |  |  | | --- | --- | | B. | the legal liabilities of a firm if an employee, acting as the firm's agent, injures someone. |  |  |  | | --- | --- | | C. | the limitations placed on an employee acting as the firm's agent to obligate or bind the firm. |  |  |  | | --- | --- | | D. | the conflicts that can arise between the viewpoints and motivations of a firm's owners and managers. | |

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| 180. | Agency problems are least likely to arise in which organizational form?      |  |  | | --- | --- | | A. | Sole proprietorship |  |  |  | | --- | --- | | B. | Limited partnership |  |  |  | | --- | --- | | C. | Corporation |  |  |  | | --- | --- | | D. | Subchapter S corporation | |

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| 181. | Institutional investors are important in today's business world because      |  |  | | --- | --- | | A. | as large investors they have more say in how businesses are managed. |  |  |  | | --- | --- | | B. | they have a fiduciary responsibility to the workers and investors that they represent to see that the firms they own are managed in an ethical way. |  |  |  | | --- | --- | | C. | as a group they can vote large blocks of stock for the election of board members. |  |  |  | | --- | --- | | D. | all of these. | |

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| 182. | The increasing percentage ownership of public corporations by institutional investors has      |  |  | | --- | --- | | A. | had no effect on corporate management. |  |  |  | | --- | --- | | B. | created higher returns for the stock market in general. |  |  |  | | --- | --- | | C. | created more pressure on public companies to manage their firms more efficiently. |  |  |  | | --- | --- | | D. | taken away the voice of the individual investor. | |

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| 183. | The Sarbanes-Oxley Act was passed in an effort to      |  |  | | --- | --- | | A. | protect small business from large corporations dominating the market. |  |  |  | | --- | --- | | B. | ensure that partnerships divide profits among partners in a fair manner. |  |  |  | | --- | --- | | C. | guarantee outside auditors can control corporate accounting practices. |  |  |  | | --- | --- | | D. | control corrupt corporate behavior. | |

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| 184. | The Sarbanes-Oxley Act set up the Public Company Accounting Oversight Board with the responsibility for all of the following except      |  |  | | --- | --- | | A. | auditing standards within companies. |  |  |  | | --- | --- | | B. | controlling the quality of audits. |  |  |  | | --- | --- | | C. | Certifying the competence of financial executives. |  |  |  | | --- | --- | | D. | setting rules and standards for the independence of auditors. | |

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| 185. | A financial manager's goal of maximizing current or short-term earnings may not be appropriate because      |  |  | | --- | --- | | A. | it fails to consider the timing of the benefits. |  |  |  | | --- | --- | | B. | increased earnings may be accompanied by unacceptably higher levels of risk. |  |  |  | | --- | --- | | C. | earnings are subjective; they can be defined in various ways such as accounting or economic earnings. |  |  |  | | --- | --- | | D. | all of these. | |

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| 186. | Maximization of shareholder wealth is a concept in which      |  |  | | --- | --- | | A. | increased earnings is of primary importance. |  |  |  | | --- | --- | | B. | profits are maximized on a quarterly basis. |  |  |  | | --- | --- | | C. | virtually all earnings are paid as dividends to common stockholders. |  |  |  | | --- | --- | | D. | optimally increasing the long-term value of the firm is emphasized. | |

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| 187. | Which of the following is not a true statement about the goal of maximizing shareholder wealth?      |  |  | | --- | --- | | A. | It takes into account the timing of cash-flows. |  |  |  | | --- | --- | | B. | It is a short-run point of view which takes risk into account. |  |  |  | | --- | --- | | C. | It considers risk as a factor. |  |  |  | | --- | --- | | D. | None of these. | |

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| 188. | As mergers, acquisitions, and restructuring have increased in importance, agency theory has become more important in assessing whether      |  |  | | --- | --- | | A. | a stock repurchase should be undertaken. |  |  |  | | --- | --- | | B. | shareholder goals are truly being achieved by managers in the long run. |  |  |  | | --- | --- | | C. | managers are actually agents or only employees of the firm. |  |  |  | | --- | --- | | D. | managers and owners are actually the same people with the same interests. | |

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| 189. | Insider trading occurs when      |  |  | | --- | --- | | A. | someone has information not available to the public which they use to profit from trading in stocks. |  |  |  | | --- | --- | | B. | corporate officers buy stock in their company. |  |  |  | | --- | --- | | C. | lawyers, investment bankers, and others buy common stock in companies represented by their firms. |  |  |  | | --- | --- | | D. | any stock transactions occur in violation of the Federal Trade Commissions restrictions on monopolies. | |

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| 190. | The major difficulty in most insider-trading cases has been      |  |  | | --- | --- | | A. | that lenient judges have simply released the guilty individuals. |  |  |  | | --- | --- | | B. | that insider trading, even though illegal, actually serves a beneficial economic and financial purpose. |  |  |  | | --- | --- | | C. | that inside trades have not been legally well defined. |  |  |  | | --- | --- | | D. | inside trades actually have a beneficial effect on the wealth of all stockholders. | |

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| 191. | Money markets would include which of the following securities?      |  |  | | --- | --- | | A. | Common stock and corporate bonds. |  |  |  | | --- | --- | | B. | Treasury bills and commercial paper. |  |  |  | | --- | --- | | C. | Certificates of deposit and preferred stock. |  |  |  | | --- | --- | | D. | All of these. | |

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| 192. | Capital markets do not include which of the following securities?      |  |  | | --- | --- | | A. | Common stock |  |  |  | | --- | --- | | B. | Commercial paper |  |  |  | | --- | --- | | C. | Government bonds |  |  |  | | --- | --- | | D. | Preferred stock | |

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| 193. | When a corporation uses the financial markets to raise new funds, the sale of securities is made in the      |  |  | | --- | --- | | A. | primary market. |  |  |  | | --- | --- | | B. | secondary market. |  |  |  | | --- | --- | | C. | on-line market. |  |  |  | | --- | --- | | D. | third market. | |

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| 194. | Companies that have higher risk than a competitor in the same industry will generally have      |  |  | | --- | --- | | A. | to pay a higher interest rate than its competitors. |  |  |  | | --- | --- | | B. | a lower relative stock price than its competitors. |  |  |  | | --- | --- | | C. | a higher cost of funds than its competitors. |  |  |  | | --- | --- | | D. | all of these. | |

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| 195. | The financial markets allocate capital to corporations by      |  |  | | --- | --- | | A. | reflecting expectations of the market participants in the prices of the corporations. |  |  |  | | --- | --- | | B. | requiring higher returns from companies with lower risk than their competitors. |  |  |  | | --- | --- | | C. | rewarding companies with expected high returns with lower relative stock prices. |  |  |  | | --- | --- | | D. | relying on the opinion of investment bankers. | |

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| 196. | Corporate restructuring has been one result of more institutional ownership. Restructuring can cause      |  |  | | --- | --- | | A. | changes in the assets and liabilities of the firm. |  |  |  | | --- | --- | | B. | the sale of low-profit margin divisions. |  |  |  | | --- | --- | | C. | the removal of current management and/or large reductions in the workforce. |  |  |  | | --- | --- | | D. | all of these. | |

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| 197. | A corporate buy-back, or the repurchasing of shares, is      |  |  | | --- | --- | | A. | an example of balance sheet restructuring. |  |  |  | | --- | --- | | B. | an excellent source of profits when the firm's stock is over-priced. |  |  |  | | --- | --- | | C. | a method of reducing the debt-to-equity ratio. |  |  |  | | --- | --- | | D. | all of these. | |

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| 198. | A corporate restructuring can result in      |  |  | | --- | --- | | A. | changes in the capital structure. |  |  |  | | --- | --- | | B. | selling of low-profit margin divisions. |  |  |  | | --- | --- | | C. | reductions in the work force. |  |  |  | | --- | --- | | D. | all of these. | |

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| 199. | Which of the following is not an example of restructuring as discussed in the text?      |  |  | | --- | --- | | A. | Repurchase of common stock |  |  |  | | --- | --- | | B. | Creating a new organizational chart |  |  |  | | --- | --- | | C. | Merging with companies in related industries |  |  |  | | --- | --- | | D. | Divesting of an unprofitable division | |

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| 200. | Future financial managers will need to understand      |  |  | | --- | --- | | A. | international cash flows. |  |  |  | | --- | --- | | B. | computerized funds transfers. |  |  |  | | --- | --- | | C. | international currency hedging strategies. |  |  |  | | --- | --- | | D. | all of these. | |

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| 201. | The increase in the internationalization of financial markets has led to      |  |  | | --- | --- | | A. | companies searching the global financial markets for low cost funds. |  |  |  | | --- | --- | | B. | an increase in American Depository Receipts (ADRs) on the New York Stock Exchange. |  |  |  | | --- | --- | | C. | an increase in debt obligations denominated in foreign currency on U.S. corporate balance sheets. |  |  |  | | --- | --- | | D. | all of these. | |

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| 202. | The internationalization of the financial markets has      |  |  | | --- | --- | | A. | allowed firms such as McDonalds to raise capital around the world. |  |  |  | | --- | --- | | B. | raised the cost of capital. |  |  |  | | --- | --- | | C. | forced companies to price everything in U.S. dollars. |  |  |  | | --- | --- | | D. | all of these. | |

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| 203. | The Internet has affected the financial markets by      |  |  | | --- | --- | | A. | creating more competition between markets. |  |  |  | | --- | --- | | B. | pushing the cost of trading down. |  |  |  | | --- | --- | | C. | forcing brokerage companies to consolidate. |  |  |  | | --- | --- | | D. | all of these. | |

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| 204. | Increased productivity due to technology has      |  |  | | --- | --- | | A. | increased corporations' reliance on debt for capital expansion needs. |  |  |  | | --- | --- | | B. | created larger asset values on the firm's historical balance sheet. |  |  |  | | --- | --- | | C. | made it cheaper (in terms of interest costs) for firms to borrow money. |  |  |  | | --- | --- | | D. | helped to keep corporate costs in check. | |

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| 205. | Companies that perform well      |  |  | | --- | --- | | A. | can sell their stock for a lower price |  |  |  | | --- | --- | | B. | can minimize dilution when issuing new shares |  |  |  | | --- | --- | | C. | can issue debt at a lower interest rate |  |  |  | | --- | --- | | D. | two of the above | |

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| 206. | The entity that is responsible for establishing the allocation and cost of capital is      |  |  | | --- | --- | | A. | the corporation |  |  |  | | --- | --- | | B. | the economy |  |  |  | | --- | --- | | C. | investors |  |  |  | | --- | --- | | D. | customers | |

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| 207. | Benefits of social responsibility often include      |  |  | | --- | --- | | A. | Better reputation |  |  |  | | --- | --- | | B. | Higher short-term earnings |  |  |  | | --- | --- | | C. | Lower expenses |  |  |  | | --- | --- | | D. | Two of the above | |

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| 208. | Regarding risk levels, financial managers should      |  |  | | --- | --- | | A. | pursue higher risk projects because they increase value |  |  |  | | --- | --- | | B. | avoid higher risk projects because they destroy value |  |  |  | | --- | --- | | C. | focus primarily on market fluctuations |  |  |  | | --- | --- | | D. | evaluate investor's desire for risk | |

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| 209. | Match the following with the questions below:      |  |  |  | | --- | --- | --- | | 1. insider trading | The ability to make profits on financial securities because of having Knowledge not available to the public. | \_\_\_\_ | | 2. articles of partnership | An agreement of partners specifying the ownership interest of a company. | \_\_\_\_ | | 3. capital structure theory | A form of organization that represents single person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs. | \_\_\_\_ | | 4. subchapter S corporation | Separate legal entity owned by shareholders who only have limited liability. | \_\_\_\_ | | 5. partnership | The study of the relative importance of debt and equity. | \_\_\_\_ | | 6. sole proprietorship | Examines the relationship between the owners of the firm and the managers of the firm. | \_\_\_\_ | | 7. corporation | A form of ownership, in which profit is taxed as direct income to the stockholders and thus is only taxed once. | \_\_\_\_ | | 8. agency theory | A form of ownership that carries unlimited liability to the owners and where the profits are taxed at individual tax rates of the owners. | \_\_\_\_ | |

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| 210. | Match the following with the questions below:      |  |  |  | | --- | --- | --- | | 1. primary market | This form of capital is found on the balance sheet under long-term liabilities and equity. | \_\_\_\_ | | 2. restructuring | The purchasing power of the dollar shrinks over time. | \_\_\_\_ | | 3. money market | A market where the securities being traded are new public offerings. | \_\_\_\_ | | 4. financial capital | Securities with a maturity of less than 1 year. | \_\_\_\_ | | 5. secondary market | Redeploying the asset and liability structure of the firm. | \_\_\_\_ | | 6. real capital | A leveling off or slowing down of price increases. | \_\_\_\_ | | 7. capital market | Market composed of common stock, preferred stock, commercial and government bonds and other long-term securities. | \_\_\_\_ | | 8. inflation | This market trades previously issued securities. | \_\_\_\_ | | 9. disinflation | The high inflation rates of the 1980s caused this form of capital to hold its value better than other forms of capital during this time period. | \_\_\_\_ | |

Chapter 1 Key

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| 1. | As finance emerged as a new field, much emphasis was placed on mergers and acquisitions.    **TRUE** |

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| *Block - Chapter 01 #1 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 2. | Inflation is assumed to be a temporary problem that does not affect financial decisions.    **FALSE** |

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| *Block - Chapter 01 #2 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 3. | Financial Capital is composed of long-term plant and equipment, as well as other tangible investments.    **FALSE** |

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| *Block - Chapter 01 #3 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 4. | Real Capital is composed of long-term plant and equipment.    **TRUE** |

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| *Block - Chapter 01 #4 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 5. | During the 1930s, financial practice revolved around such topics as the preservation of capital, maintenance of liquidity, reorganization of financially troubled corporations and bankruptcy.    **TRUE** |

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| *Block - Chapter 01 #5 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 6. | In the mid 1950s, finance began to change to a more analytical, decision-oriented approach.    **TRUE** |

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| *Block - Chapter 01 #6 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 7. | Recently, the emphasis of financial management has been on the relationship between risk and return.    **TRUE** |

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| *Block - Chapter 01 #7 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas. Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 8. | The first Nobel Prizes given to finance professors were for their contributions to capital structure theory and portfolio theories of risk and return.    **TRUE** |

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| *Block - Chapter 01 #8 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 9. | The Internet impacts e-commerce by creating a mechanism for improved communications between a business, its customers, and its suppliers.    **TRUE** |

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| *Block - Chapter 01 #9 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 10. | The Internet has accounted for an acceleration of productivity for "old economy" firms.    **TRUE** |

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| *Block - Chapter 01 #10 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 11. | The Internet is responsible for many new business models.    **TRUE** |

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| *Block - Chapter 01 #11 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 12. | Businesses will increasingly rely on B2B Internet applications to speed up the cash flows through their firms.    **TRUE** |

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| *Block - Chapter 01 #12 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 13. | The sole proprietorship represents single-person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs.    **TRUE** |

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| *Block - Chapter 01 #13 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization. A firm can have many different forms of organization.* |

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| 14. | Profits of sole proprietorships are taxed at corporate tax rates.    **FALSE** |

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| *Block - Chapter 01 #14 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization. A firm can have many different forms of organization.* |

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| 15. | There is unlimited liability in a general partnership.    **TRUE** |

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| *Block - Chapter 01 #15 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 16. | The most common partnership arrangement carries limited liability to the partners.    **FALSE** |

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| *Block - Chapter 01 #16 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 17. | A limited partnership limits the profits partners may receive.    **FALSE** |

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| *Block - Chapter 01 #17 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 18. | In terms of revenues and profits, the corporation is by far the most important form of business organization in the United States.    **TRUE** |

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| *Block - Chapter 01 #18 Blooms: Understand Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 19. | Dividends paid to corporate stockholders have already been taxed once as corporate income.    **TRUE** |

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| *Block - Chapter 01 #19 Blooms: Understand Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 20. | One advantage of the corporate form of organization is that income received by stockholders is not taxable since the corporation already paid taxes on the income distributed.    **FALSE** |

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| *Block - Chapter 01 #20 Blooms: Understand Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 21. | A corporation must have more than 75 stockholders to qualify for Subchapter S designation.    **FALSE** |

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| *Block - Chapter 01 #21 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 22. | Profits of a Subchapter S corporation are taxed at corporate tax rates.    **FALSE** |

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| *Block - Chapter 01 #22 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 23. | The formation of a Subchapter S corporation is a way to circumvent the double taxation of a small corporation.    **TRUE** |

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| *Block - Chapter 01 #23 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 24. | Corporate governance issues have become less important to the financial community during the first decade of the new millennium.    **FALSE** |

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| *Block - Chapter 01 #24 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders. The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 25. | The issues of corporate governance are really agency problems.    **TRUE** |

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| *Block - Chapter 01 #25 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 26. | Agency Theory examines the relationship between companies and their customers.    **FALSE** |

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| *Block - Chapter 01 #26 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 27. | Institutional investors have had increasing influence over corporations with their ability to vote large blocks of stock and replace poor performing boards of directors.    **TRUE** |

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| *Block - Chapter 01 #27 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 28. | Agency theory assumes that corporate managers act to increase the wealth of corporate shareholders.    **FALSE** |

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| *Block - Chapter 01 #28 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 29. | The Sarbanes Oxley Act reduced agency conflicts by giving corporate managers greater flexibility to select their preferred candidates to the Board of Directors.    **FALSE** |

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| *Block - Chapter 01 #29 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 30. | A major focus of the Sarbanes Oxley Act is to make sure that publicly traded companies accurately present their assets, liabilities and income in their financial statements.    **TRUE** |

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| *Block - Chapter 01 #30 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 31. | The Sarbanes Oxley Act is primarily intended to increase public scrutiny of private companies that had previously been exempt from many public disclosure requirements.    **FALSE** |

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| *Block - Chapter 01 #31 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 32. | Timing is not a particularly important consideration in financial decisions.    **FALSE** |

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| *Block - Chapter 01 #32 Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 33. | The higher the profit of a firm, the higher the value the firm is assured of receiving in the market.    **FALSE** |

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| *Block - Chapter 01 #33 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 34. | There are some serious problems with the financial goal of maximizing the earnings of the firm.    **TRUE** |

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| *Block - Chapter 01 #34 Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 35. | Maximizing the earnings of the firm is the goal of financial management.    **FALSE** |

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| *Block - Chapter 01 #35 Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 36. | Because socially desirable goals can impede profitability in many instances, managers should not try to operate under the assumption of wealth maximization.    **FALSE** |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #36 Blooms: Apply Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 37. | Insider trading involves the use of information not available to the general public to make profits from trading in a company's stock.    **TRUE** |

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| *Block - Chapter 01 #37 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 38. | Social responsibility and profit maximization are synonymous.    **FALSE** |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #38 Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 39. | Financial markets exist as a vast global network of individuals and financial institutions that may be lenders, borrowers, or owners of public companies worldwide.    **TRUE** |

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| *Block - Chapter 01 #39 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds. Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 40. | Money markets refer to those markets dealing with short-term securities having a life of one year or less.    **TRUE** |

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| *Block - Chapter 01 #40 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds. Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 41. | Money markets refer to markets where excess corporate cash is exchanged for foreign currencies that can earn a higher return than domestic money.    **FALSE** |

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| *Block - Chapter 01 #41 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 42. | Capital markets refer to those markets dealing with short-term securities having a life of one year or less.    **FALSE** |

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| *Block - Chapter 01 #42 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 43. | The primary market includes the sale of securities by way of initial public offerings.    **TRUE** |

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| *Block - Chapter 01 #43 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 44. | High quality initial public offerings are usually sold in a primary market, such as the New York Stock Exchange. However, low-quality stocks must usually be sold in secondary markets, such as NASDAQ.    **FALSE** |

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| *Block - Chapter 01 #44 Blooms: Understand Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 45. | Although NASDAQ is a secondary market, some of the firms traded there, such as Microsoft, are large enough to move to the primary market if they so desire.    **FALSE** |

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| *Block - Chapter 01 #45 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 46. | The secondary market characteristically has had stable prices over the past 20 years.    **FALSE** |

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| *Block - Chapter 01 #46 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 47. | In the United States, stocks sold on either the New York Stock Exchange or NASDAQ are considered sold in the primary market.    **FALSE** |

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| *Block - Chapter 01 #47 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 48. | New issues are sold in the secondary market.    **FALSE** |

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| *Block - Chapter 01 #48 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 49. | Existing securities are traded in the secondary market.    **TRUE** |

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| *Block - Chapter 01 #49 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 50. | Many companies have cross-listed their stock on multiple international stock exchanges and more than several hundred foreign companies have listed their shares on the New York Stock Exchange.    **TRUE** |

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| *Block - Chapter 01 #50 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 51. | Higher return always induces stockholders to invest in a company.    **FALSE** |

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| *Block - Chapter 01 #51 Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 52. | Social responsibility is an expense and thus should be avoided by financial managers because it will lead to loss of income.    **FALSE** |

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| *Block - Chapter 01 #52 Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 53. | Financial management requires both short-term activities as well as long-term planning such as raising funds.    **TRUE** |

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| *Block - Chapter 01 #53 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 54. | One of the primary disadvantages of maximizing shareholder value is that it only provides a short-term perspective.    **FALSE** |

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| *Block - Chapter 01 #54 Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 55. | If a company has a written code of ethics, they will generally avoid ethical problems.    **TRUE** |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #55 Blooms: Evaluate Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 56. | Risk management will be an important factor over the next decade.    **TRUE** |

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| *Block - Chapter 01 #56 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 57. | Which of the following did not contribute to the financial crisis?      |  |  | | --- | --- | | A. | The change from mark-to-market accounting to |  |  |  | | --- | --- | | B. | Solid credit ratings from the ratings agencies |  |  |  | | --- | --- | | C. | The extension of credit to high-risk borrowers |  |  |  | | --- | --- | | **D.** | The takeover of JPMorgan Chase by Bear Sterns |  |  |  | | --- | --- | | E. | Mark this response if all of the above contributed to the financial crisis | |

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| *Block - Chapter 01 #57 Blooms: Understanding Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 58. | Credit swaps are:      |  |  | | --- | --- | | **A.** | an insurance product designed to protect financial institutions from customers who default on their loans. |  |  |  | | --- | --- | | B. | securities with a maturity of less than 1 year. |  |  |  | | --- | --- | | C. | the result of a leveling off or slowing down of price increases. |  |  |  | | --- | --- | | D. | market trades in previously issued securities. |  |  |  | | --- | --- | | E. | none of the above. | |

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| *Block - Chapter 01 #58 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 59. | What is the primary goal of financial management?      |  |  | | --- | --- | | A. | Increased earnings |  |  |  | | --- | --- | | B. | Maximizing cash flow |  |  |  | | --- | --- | | **C.** | Maximizing shareholder wealth |  |  |  | | --- | --- | | D. | Minimizing risk of the firm | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #59 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 60. | In the past, the study of finance has included      |  |  | | --- | --- | | A. | mergers and acquisitions. |  |  |  | | --- | --- | | B. | raising capital. |  |  |  | | --- | --- | | C. | bankruptcy. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #60 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 61. | Professor Merton Miller received the Nobel prize in economics for his work on      |  |  | | --- | --- | | A. | dividend policy. |  |  |  | | --- | --- | | B. | investment theory. |  |  |  | | --- | --- | | C. | working capital management. |  |  |  | | --- | --- | | **D.** | capital structure theory. | |

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| *Block - Chapter 01 #61 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 62. | Professors Harry Markowitz and William Sharpe received their Nobel prize in economics for their contributions to the      |  |  | | --- | --- | | A. | options pricing model. |  |  |  | | --- | --- | | B. | theories of working capital management. |  |  |  | | --- | --- | | **C.** | theories of risk-return and portfolio theory. |  |  |  | | --- | --- | | D. | theories of international capital budgeting. | |

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| *Block - Chapter 01 #62 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas. Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 63. | Proper risk-return management means that      |  |  | | --- | --- | | A. | the firm should take as few risks as possible. |  |  |  | | --- | --- | | **B.** | the firm must determine an appropriate trade-off between risk and return. |  |  |  | | --- | --- | | C. | the firm should earn the highest return possible. |  |  |  | | --- | --- | | D. | the firm should value future profits more highly than current profits. | |

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| *Block - Chapter 01 #63 Blooms: Remember Difficulty: Basic Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 64. | One of the major disadvantages of a sole proprietorship is      |  |  | | --- | --- | | **A.** | that there is unlimited liability to the owner. |  |  |  | | --- | --- | | B. | the simplicity of decision making. |  |  |  | | --- | --- | | C. | low organizational costs. |  |  |  | | --- | --- | | D. | low operating costs. | |

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| *Block - Chapter 01 #64 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 65. | One of the major advantages of a sole proprietorship is      |  |  | | --- | --- | | A. | that the owner has limited liability. |  |  |  | | --- | --- | | B. | that stock in the proprietorship can be easily transferred. |  |  |  | | --- | --- | | C. | that it is exempt from many tax rules that would otherwise apply when employees are hired by the firm. |  |  |  | | --- | --- | | **D.** | low operating costs. | |

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| *Block - Chapter 01 #65 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 66. | The partnership form of an organization      |  |  | | --- | --- | | **A.** | avoids the double taxation of earnings and dividends found in the corporate form of organization. |  |  |  | | --- | --- | | B. | usually provides limited liability to the partners. |  |  |  | | --- | --- | | C. | has unlimited life. |  |  |  | | --- | --- | | D. | simplifies decision making. | |

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| *Block - Chapter 01 #66 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 67. | A corporation is      |  |  | | --- | --- | | A. | owned by stockholders who enjoy the privilege of limited liability. |  |  |  | | --- | --- | | B. | easily divisible between owners. |  |  |  | | --- | --- | | C. | a separate legal entity with perpetual life. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #67 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 68. | With a Subchapter S corporation      |  |  | | --- | --- | | **A.** | income is taxed as direct income to stockholders. |  |  |  | | --- | --- | | B. | stockholders have the same liability as members of a partnership. |  |  |  | | --- | --- | | C. | the number of stockholders is unlimited. |  |  |  | | --- | --- | | D. | life of the corporation is limited. | |

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| *Block - Chapter 01 #68 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 69. | A Subchapter S corporation      |  |  | | --- | --- | | A. | is similar to a partnership in that it carries unlimited liability. |  |  |  | | --- | --- | | B. | is a separate legal entity which is treated like a normal corporation. |  |  |  | | --- | --- | | **C.** | has all the organizational benefits of a corporation and its income is only taxed once. |  |  |  | | --- | --- | | D. | all of these. | |

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| *Block - Chapter 01 #69 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 70. | Corporate governance is the      |  |  | | --- | --- | | **A.** | relationship and exercise of oversight by the board of directors of the company. |  |  |  | | --- | --- | | B. | relationship between the chief financial officer and institutional investors. |  |  |  | | --- | --- | | C. | operation of a company by the chief executive officer (CEO) and other senior executives on the management team. |  |  |  | | --- | --- | | D. | governance of the company by the board of directors with a focus on social responsibility. | |

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| *Block - Chapter 01 #70 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 71. | Many companies such as Tyco, Enron, and WorldCom that suffered financial distress in the late 1990s and early 2000s,      |  |  | | --- | --- | | A. | committed fraud. |  |  |  | | --- | --- | | B. | had failed corporate governance oversight. |  |  |  | | --- | --- | | C. | went bankrupt. |  |  |  | | --- | --- | | **D.** | all of these are true. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #71 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 72. | Agency theory examines the relationship between the      |  |  | | --- | --- | | A. | shareholders of the firm and the firm's investment banker. |  |  |  | | --- | --- | | **B.** | owners of the firm and the managers of the firm. |  |  |  | | --- | --- | | C. | board of directors and large institutional investors. |  |  |  | | --- | --- | | D. | shareholders and the firm's transfer agent. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #72 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 73. | Agency theory would imply that conflicts are more likely to occur between management and shareholders when      |  |  | | --- | --- | | A. | the company is owned and operated by the same person. |  |  |  | | --- | --- | | B. | management acts in the best interests of maximizing shareholder wealth. |  |  |  | | --- | --- | | **C.** | the chairman of the board is also the chief executive officer (CEO). |  |  |  | | --- | --- | | D. | the board of directors exerts strong and involved oversight of management. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #73 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 74. | Agency theory deals with the issue of      |  |  | | --- | --- | | A. | when to hire an agent to represent the firm in negotiations. |  |  |  | | --- | --- | | B. | the legal liabilities of a firm if an employee, acting as the firm's agent, injures someone. |  |  |  | | --- | --- | | C. | the limitations placed on an employee acting as the firm's agent to obligate or bind the firm. |  |  |  | | --- | --- | | **D.** | the conflicts that can arise between the viewpoints and motivations of a firm's owners and managers. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #74 Blooms: Understand Difficulty: Challenge Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 75. | Agency problems are least likely to arise in which organizational form?      |  |  | | --- | --- | | **A.** | Sole proprietorship |  |  |  | | --- | --- | | B. | Limited partnership |  |  |  | | --- | --- | | C. | Corporation |  |  |  | | --- | --- | | D. | Subchapter S corporation | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #75 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization. Learning Objective: 01-04* |

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| 76. | Institutional investors are important in today's business world because      |  |  | | --- | --- | | A. | as large investors they have more say in how businesses are managed. |  |  |  | | --- | --- | | B. | they have a fiduciary responsibility to the workers and investors that they represent to see that the firms they own are managed in an ethical way. |  |  |  | | --- | --- | | C. | as a group they can vote large blocks of stock for the election of board members. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #76 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 77. | The increasing percentage ownership of public corporations by institutional investors has      |  |  | | --- | --- | | A. | had no effect on corporate management. |  |  |  | | --- | --- | | B. | created higher returns for the stock market in general. |  |  |  | | --- | --- | | **C.** | created more pressure on public companies to manage their firms more efficiently. |  |  |  | | --- | --- | | D. | taken away the voice of the individual investor. | |

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| *Block - Chapter 01 #77 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 78. | The Sarbanes-Oxley Act was passed in an effort to      |  |  | | --- | --- | | A. | protect small business from large corporations dominating the market. |  |  |  | | --- | --- | | B. | ensure that partnerships divide profits among partners in a fair manner. |  |  |  | | --- | --- | | C. | guarantee outside auditors can control corporate accounting practices. |  |  |  | | --- | --- | | **D.** | control corrupt corporate behavior. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #78 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 79. | The Sarbanes-Oxley Act set up the Public Company Accounting Oversight Board with the responsibility for all of the following except      |  |  | | --- | --- | | A. | auditing standards within companies. |  |  |  | | --- | --- | | B. | controlling the quality of audits. |  |  |  | | --- | --- | | **C.** | Certifying the competence of financial executives. |  |  |  | | --- | --- | | D. | setting rules and standards for the independence of auditors. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #79 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 80. | A financial manager's goal of maximizing current or short-term earnings may not be appropriate because      |  |  | | --- | --- | | A. | it fails to consider the timing of the benefits. |  |  |  | | --- | --- | | B. | increased earnings may be accompanied by unacceptably higher levels of risk. |  |  |  | | --- | --- | | C. | earnings are subjective; they can be defined in various ways such as accounting or economic earnings. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #80 Blooms: Apply Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 81. | Maximization of shareholder wealth is a concept in which      |  |  | | --- | --- | | A. | increased earnings is of primary importance. |  |  |  | | --- | --- | | B. | profits are maximized on a quarterly basis. |  |  |  | | --- | --- | | C. | virtually all earnings are paid as dividends to common stockholders. |  |  |  | | --- | --- | | **D.** | optimally increasing the long-term value of the firm is emphasized. | |

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| *Block - Chapter 01 #81 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 82. | Which of the following is not a true statement about the goal of maximizing shareholder wealth?      |  |  | | --- | --- | | A. | It takes into account the timing of cash-flows. |  |  |  | | --- | --- | | **B.** | It is a short-run point of view which takes risk into account. |  |  |  | | --- | --- | | C. | It considers risk as a factor. |  |  |  | | --- | --- | | D. | None of these. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #82 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 83. | As mergers, acquisitions, and restructuring have increased in importance, agency theory has become more important in assessing whether      |  |  | | --- | --- | | A. | a stock repurchase should be undertaken. |  |  |  | | --- | --- | | **B.** | shareholder goals are truly being achieved by managers in the long run. |  |  |  | | --- | --- | | C. | managers are actually agents or only employees of the firm. |  |  |  | | --- | --- | | D. | managers and owners are actually the same people with the same interests. | |

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| *AACSB: Analytic Block - Chapter 01 #83 Blooms: Evaluate Difficulty: Challenge Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 84. | Insider trading occurs when      |  |  | | --- | --- | | **A.** | someone has information not available to the public which they use to profit from trading in stocks. |  |  |  | | --- | --- | | B. | corporate officers buy stock in their company. |  |  |  | | --- | --- | | C. | lawyers, investment bankers, and others buy common stock in companies represented by their firms. |  |  |  | | --- | --- | | D. | any stock transactions occur in violation of the Federal Trade Commissions restrictions on monopolies. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #84 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 85. | The major difficulty in most insider-trading cases has been      |  |  | | --- | --- | | A. | that lenient judges have simply released the guilty individuals. |  |  |  | | --- | --- | | B. | that insider trading, even though illegal, actually serves a beneficial economic and financial purpose. |  |  |  | | --- | --- | | **C.** | that inside trades have not been legally well defined. |  |  |  | | --- | --- | | D. | inside trades actually have a beneficial effect on the wealth of all stockholders. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #85 Blooms: Understand Difficulty: Challenge Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 86. | Money markets would include which of the following securities?      |  |  | | --- | --- | | A. | Common stock and corporate bonds. |  |  |  | | --- | --- | | **B.** | Treasury bills and commercial paper. |  |  |  | | --- | --- | | C. | Certificates of deposit and preferred stock. |  |  |  | | --- | --- | | D. | All of these. | |

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| *Block - Chapter 01 #86 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 87. | Capital markets do not include which of the following securities?      |  |  | | --- | --- | | A. | Common stock |  |  |  | | --- | --- | | **B.** | Commercial paper |  |  |  | | --- | --- | | C. | Government bonds |  |  |  | | --- | --- | | D. | Preferred stock | |

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| *Block - Chapter 01 #87 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 88. | When a corporation uses the financial markets to raise new funds, the sale of securities is made in the      |  |  | | --- | --- | | **A.** | primary market. |  |  |  | | --- | --- | | B. | secondary market. |  |  |  | | --- | --- | | C. | on-line market. |  |  |  | | --- | --- | | D. | third market. | |

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| *Block - Chapter 01 #88 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 89. | Companies that have higher risk than a competitor in the same industry will generally have      |  |  | | --- | --- | | A. | to pay a higher interest rate than its competitors. |  |  |  | | --- | --- | | B. | a lower relative stock price than its competitors. |  |  |  | | --- | --- | | C. | a higher cost of funds than its competitors. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *AACSB: Analytic Block - Chapter 01 #89 Blooms: Evaluate Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 90. | The financial markets allocate capital to corporations by      |  |  | | --- | --- | | **A.** | reflecting expectations of the market participants in the prices of the corporations. |  |  |  | | --- | --- | | B. | requiring higher returns from companies with lower risk than their competitors. |  |  |  | | --- | --- | | C. | rewarding companies with expected high returns with lower relative stock prices. |  |  |  | | --- | --- | | D. | relying on the opinion of investment bankers. | |

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| *AACSB: Analytic Block - Chapter 01 #90 Blooms: Evaluate Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 91. | Corporate restructuring has been one result of more institutional ownership. Restructuring can cause      |  |  | | --- | --- | | A. | changes in the assets and liabilities of the firm. |  |  |  | | --- | --- | | B. | the sale of low-profit margin divisions. |  |  |  | | --- | --- | | C. | the removal of current management and/or large reductions in the workforce. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #91 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 92. | A corporate buy-back, or the repurchasing of shares, is      |  |  | | --- | --- | | **A.** | an example of balance sheet restructuring. |  |  |  | | --- | --- | | B. | an excellent source of profits when the firm's stock is over-priced. |  |  |  | | --- | --- | | C. | a method of reducing the debt-to-equity ratio. |  |  |  | | --- | --- | | D. | all of these. | |

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| *Block - Chapter 01 #92 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 93. | A corporate restructuring can result in      |  |  | | --- | --- | | A. | changes in the capital structure. |  |  |  | | --- | --- | | B. | selling of low-profit margin divisions. |  |  |  | | --- | --- | | C. | reductions in the work force. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #93 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 94. | Which of the following is not an example of restructuring as discussed in the text?      |  |  | | --- | --- | | A. | Repurchase of common stock |  |  |  | | --- | --- | | **B.** | Creating a new organizational chart |  |  |  | | --- | --- | | C. | Merging with companies in related industries |  |  |  | | --- | --- | | D. | Divesting of an unprofitable division | |

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| *Block - Chapter 01 #94 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 95. | Future financial managers will need to understand      |  |  | | --- | --- | | A. | international cash flows. |  |  |  | | --- | --- | | B. | computerized funds transfers. |  |  |  | | --- | --- | | C. | international currency hedging strategies. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *AACSB: Analytic Block - Chapter 01 #95 Blooms: Evaluate Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 96. | The increase in the internationalization of financial markets has led to      |  |  | | --- | --- | | A. | companies searching the global financial markets for low cost funds. |  |  |  | | --- | --- | | B. | an increase in American Depository Receipts (ADRs) on the New York Stock Exchange. |  |  |  | | --- | --- | | C. | an increase in debt obligations denominated in foreign currency on U.S. corporate balance sheets. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #96 Blooms: Understand Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 97. | The internationalization of the financial markets has      |  |  | | --- | --- | | **A.** | allowed firms such as McDonalds to raise capital around the world. |  |  |  | | --- | --- | | B. | raised the cost of capital. |  |  |  | | --- | --- | | C. | forced companies to price everything in U.S. dollars. |  |  |  | | --- | --- | | D. | all of these. | |

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| *Block - Chapter 01 #97 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 98. | The Internet has affected the financial markets by      |  |  | | --- | --- | | A. | creating more competition between markets. |  |  |  | | --- | --- | | B. | pushing the cost of trading down. |  |  |  | | --- | --- | | C. | forcing brokerage companies to consolidate. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #98 Blooms: Understand Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 99. | Increased productivity due to technology has      |  |  | | --- | --- | | A. | increased corporations' reliance on debt for capital expansion needs. |  |  |  | | --- | --- | | B. | created larger asset values on the firm's historical balance sheet. |  |  |  | | --- | --- | | C. | made it cheaper (in terms of interest costs) for firms to borrow money. |  |  |  | | --- | --- | | **D.** | helped to keep corporate costs in check. | |

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| *Block - Chapter 01 #99 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 100. | Companies that perform well      |  |  | | --- | --- | | A. | can sell their stock for a lower price |  |  |  | | --- | --- | | B. | can minimize dilution when issuing new shares |  |  |  | | --- | --- | | C. | can issue debt at a lower interest rate |  |  |  | | --- | --- | | **D.** | two of the above | |

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| *Block - Chapter 01 #100 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 101. | The entity that is responsible for establishing the allocation and cost of capital is      |  |  | | --- | --- | | A. | the corporation |  |  |  | | --- | --- | | B. | the economy |  |  |  | | --- | --- | | **C.** | investors |  |  |  | | --- | --- | | D. | customers | |

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| *Block - Chapter 01 #101 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 102. | Benefits of social responsibility often include      |  |  | | --- | --- | | **A.** | Better reputation |  |  |  | | --- | --- | | B. | Higher short-term earnings |  |  |  | | --- | --- | | C. | Lower expenses |  |  |  | | --- | --- | | D. | Two of the above | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #102 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 103. | Regarding risk levels, financial managers should      |  |  | | --- | --- | | A. | pursue higher risk projects because they increase value |  |  |  | | --- | --- | | B. | avoid higher risk projects because they destroy value |  |  |  | | --- | --- | | C. | focus primarily on market fluctuations |  |  |  | | --- | --- | | **D.** | evaluate investor's desire for risk | |

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| *AACSB: Analytic Block - Chapter 01 #103 Blooms: Analyze Difficulty: Intermediate Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 104. | Match the following with the questions below:      |  |  |  | | --- | --- | --- | | 1. partnership | The ability to make profits on financial securities because of having Knowledge not available to the public. | **3** | | 2. subchapter S corporation | An agreement of partners specifying the ownership interest of a company. | **8** | | 3. insider trading | A form of organization that represents single person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs. | **7** | | 4. capital structure theory | Separate legal entity owned by shareholders who only have limited liability. | **5** | | 5. corporation | The study of the relative importance of debt and equity. | **4** | | 6. agency theory | Examines the relationship between the owners of the firm and the managers of the firm. | **6** | | 7. sole proprietorship | A form of ownership, in which profit is taxed as direct income to the stockholders and thus is only taxed once. | **2** | | 8. articles of partnership | A form of ownership that carries unlimited liability to the owners and where the profits are taxed at individual tax rates of the owners. | **1** | |

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| *Block - Chapter 01 #104 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas. Learning Objective: 01-02 A firm can have many different forms of organization. A firm can have many different forms of organization. Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders. The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 105. | Match the following with the questions below:      |  |  |  | | --- | --- | --- | | 1. inflation | This form of capital is found on the balance sheet under long-term liabilities and equity. | **5** | | 2. primary market | The purchasing power of the dollar shrinks over time. | **1** | | 3. capital market | A market where the securities being traded are new public offerings. | **2** | | 4. secondary market | Securities with a maturity of less than 1 year. | **8** | | 5. financial capital | Redeploying the asset and liability structure of the firm. | **9** | | 6. disinflation | A leveling off or slowing down of price increases. | **6** | | 7. real capital | Market composed of common stock, preferred stock, commercial and government bonds and other long-term securities. | **3** | | 8. money market | This market trades previously issued securities. | **4** | | 9. restructuring | The high inflation rates of the 1980s caused this form of capital to hold its value better than other forms of capital during this time period. | **7** | |

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| *Block - Chapter 01 #105 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas. Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds. Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 106. | As finance emerged as a new field, much emphasis was placed on mergers and acquisitions.    **TRUE** |

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| *Block - Chapter 01 #1 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 107. | Inflation is assumed to be a temporary problem that does not affect financial decisions.    **FALSE** |

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| *Block - Chapter 01 #2 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 108. | Financial Capital is composed of long-term plant and equipment, as well as other tangible investments.    **FALSE** |

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| *Block - Chapter 01 #3 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 109. | Real Capital is composed of long-term plant and equipment.    **TRUE** |

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| *Block - Chapter 01 #4 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 110. | During the 1930s, financial practice revolved around such topics as the preservation of capital, maintenance of liquidity, reorganization of financially troubled corporations and bankruptcy.    **TRUE** |

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| *Block - Chapter 01 #5 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 111. | In the mid 1950s, finance began to change to a more analytical, decision-oriented approach.    **TRUE** |

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| *Block - Chapter 01 #6 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 112. | Recently, the emphasis of financial management has been on the relationship between risk and return.    **TRUE** |

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| *Block - Chapter 01 #7 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas. Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 113. | The first Nobel Prizes given to finance professors were for their contributions to capital structure theory and portfolio theories of risk and return.    **TRUE** |

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| *Block - Chapter 01 #8 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 114. | The Internet impacts e-commerce by creating a mechanism for improved communications between a business, its customers, and its suppliers.    **TRUE** |

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| *Block - Chapter 01 #9 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 115. | The Internet has accounted for an acceleration of productivity for "old economy" firms.    **TRUE** |

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| *Block - Chapter 01 #10 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 116. | The Internet is responsible for many new business models.    **TRUE** |

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| *Block - Chapter 01 #11 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 117. | Businesses will increasingly rely on B2B Internet applications to speed up the cash flows through their firms.    **TRUE** |

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| *Block - Chapter 01 #12 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 118. | The sole proprietorship represents single-person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs.    **TRUE** |

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| *Block - Chapter 01 #13 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization. A firm can have many different forms of organization.* |

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| 119. | Profits of sole proprietorships are taxed at corporate tax rates.    **FALSE** |

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| *Block - Chapter 01 #14 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization. A firm can have many different forms of organization.* |

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| 120. | There is unlimited liability in a general partnership.    **TRUE** |

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| *Block - Chapter 01 #15 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 121. | The most common partnership arrangement carries limited liability to the partners.    **FALSE** |

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| *Block - Chapter 01 #16 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 122. | A limited partnership limits the profits partners may receive.    **FALSE** |

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| *Block - Chapter 01 #17 Blooms: Remember Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 123. | In terms of revenues and profits, the corporation is by far the most important form of business organization in the United States.    **TRUE** |

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| *Block - Chapter 01 #18 Blooms: Understand Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 124. | Dividends paid to corporate stockholders have already been taxed once as corporate income.    **TRUE** |

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| *Block - Chapter 01 #19 Blooms: Understand Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 125. | One advantage of the corporate form of organization is that income received by stockholders is not taxable since the corporation already paid taxes on the income distributed.    **FALSE** |

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| *Block - Chapter 01 #20 Blooms: Understand Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 126. | A corporation must have more than 75 stockholders to qualify for Subchapter S designation.    **FALSE** |

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| *Block - Chapter 01 #21 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 127. | Profits of a Subchapter S corporation are taxed at corporate tax rates.    **FALSE** |

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| *Block - Chapter 01 #22 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 128. | The formation of a Subchapter S corporation is a way to circumvent the double taxation of a small corporation.    **TRUE** |

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| *Block - Chapter 01 #23 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 129. | Corporate governance issues have become less important to the financial community during the first decade of the new millennium.    **FALSE** |

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| *Block - Chapter 01 #24 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders. The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 130. | The issues of corporate governance are really agency problems.    **TRUE** |

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| *Block - Chapter 01 #25 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 131. | Agency Theory examines the relationship between companies and their customers.    **FALSE** |

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| *Block - Chapter 01 #26 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 132. | Institutional investors have had increasing influence over corporations with their ability to vote large blocks of stock and replace poor performing boards of directors.    **TRUE** |

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| *Block - Chapter 01 #27 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 133. | Agency theory assumes that corporate managers act to increase the wealth of corporate shareholders.    **FALSE** |

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| *Block - Chapter 01 #28 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 134. | The Sarbanes Oxley Act reduced agency conflicts by giving corporate managers greater flexibility to select their preferred candidates to the Board of Directors.    **FALSE** |

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| *Block - Chapter 01 #29 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 135. | A major focus of the Sarbanes Oxley Act is to make sure that publicly traded companies accurately present their assets, liabilities and income in their financial statements.    **TRUE** |

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| *Block - Chapter 01 #30 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 136. | The Sarbanes Oxley Act is primarily intended to increase public scrutiny of private companies that had previously been exempt from many public disclosure requirements.    **FALSE** |

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| *Block - Chapter 01 #31 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 137. | Timing is not a particularly important consideration in financial decisions.    **FALSE** |

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| *Block - Chapter 01 #32 Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 138. | The higher the profit of a firm, the higher the value the firm is assured of receiving in the market.    **FALSE** |

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| *Block - Chapter 01 #33 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 139. | There are some serious problems with the financial goal of maximizing the earnings of the firm.    **TRUE** |

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| *Block - Chapter 01 #34 Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 140. | Maximizing the earnings of the firm is the goal of financial management.    **FALSE** |

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| *Block - Chapter 01 #35 Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 141. | Because socially desirable goals can impede profitability in many instances, managers should not try to operate under the assumption of wealth maximization.    **FALSE** |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #36 Blooms: Apply Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 142. | Insider trading involves the use of information not available to the general public to make profits from trading in a company's stock.    **TRUE** |

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| *Block - Chapter 01 #37 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 143. | Social responsibility and profit maximization are synonymous.    **FALSE** |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #38 Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 144. | Financial markets exist as a vast global network of individuals and financial institutions that may be lenders, borrowers, or owners of public companies worldwide.    **TRUE** |

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| *Block - Chapter 01 #39 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds. Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 145. | Money markets refer to those markets dealing with short-term securities having a life of one year or less.    **TRUE** |

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| *Block - Chapter 01 #40 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds. Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 146. | Money markets refer to markets where excess corporate cash is exchanged for foreign currencies that can earn a higher return than domestic money.    **FALSE** |

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| *Block - Chapter 01 #41 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 147. | Capital markets refer to those markets dealing with short-term securities having a life of one year or less.    **FALSE** |

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| *Block - Chapter 01 #42 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 148. | The primary market includes the sale of securities by way of initial public offerings.    **TRUE** |

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| *Block - Chapter 01 #43 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 149. | High quality initial public offerings are usually sold in a primary market, such as the New York Stock Exchange. However, low-quality stocks must usually be sold in secondary markets, such as NASDAQ.    **FALSE** |

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| *Block - Chapter 01 #44 Blooms: Understand Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 150. | Although NASDAQ is a secondary market, some of the firms traded there, such as Microsoft, are large enough to move to the primary market if they so desire.    **FALSE** |

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| *Block - Chapter 01 #45 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 151. | The secondary market characteristically has had stable prices over the past 20 years.    **FALSE** |

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| *Block - Chapter 01 #46 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 152. | In the United States, stocks sold on either the New York Stock Exchange or NASDAQ are considered sold in the primary market.    **FALSE** |

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| *Block - Chapter 01 #47 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 153. | New issues are sold in the secondary market.    **FALSE** |

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| *Block - Chapter 01 #48 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 154. | Existing securities are traded in the secondary market.    **TRUE** |

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| *Block - Chapter 01 #49 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 155. | Many companies have cross-listed their stock on multiple international stock exchanges and more than several hundred foreign companies have listed their shares on the New York Stock Exchange.    **TRUE** |

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| *Block - Chapter 01 #50 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 156. | Higher return always induces stockholders to invest in a company.    **FALSE** |

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| *Block - Chapter 01 #51 Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 157. | Social responsibility is an expense and thus should be avoided by financial managers because it will lead to loss of income.    **FALSE** |

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| *Block - Chapter 01 #52 Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 158. | Financial management requires both short-term activities as well as long-term planning such as raising funds.    **TRUE** |

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| *Block - Chapter 01 #53 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 159. | One of the primary disadvantages of maximizing shareholder value is that it only provides a short-term perspective.    **FALSE** |

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| *Block - Chapter 01 #54 Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 160. | If a company has a written code of ethics, they will generally avoid ethical problems.    **TRUE** |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #55 Blooms: Evaluate Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 161. | Risk management will be an important factor over the next decade.    **TRUE** |

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| *Block - Chapter 01 #56 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 162. | Which of the following did not contribute to the financial crisis?      |  |  | | --- | --- | | A. | The change from mark-to-market accounting to |  |  |  | | --- | --- | | B. | Solid credit ratings from the ratings agencies |  |  |  | | --- | --- | | C. | The extension of credit to high-risk borrowers |  |  |  | | --- | --- | | **D.** | The takeover of JPMorgan Chase by Bear Sterns |  |  |  | | --- | --- | | E. | Mark this response if all of the above contributed to the financial crisis | |

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| *Block - Chapter 01 #57 Blooms: Understanding Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 163. | Credit swaps are:      |  |  | | --- | --- | | **A.** | an insurance product designed to protect financial institutions from customers who default on their loans. |  |  |  | | --- | --- | | B. | securities with a maturity of less than 1 year. |  |  |  | | --- | --- | | C. | the result of a leveling off or slowing down of price increases. |  |  |  | | --- | --- | | D. | market trades in previously issued securities. |  |  |  | | --- | --- | | E. | none of the above. | |

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| *Block - Chapter 01 #58 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 164. | What is the primary goal of financial management?      |  |  | | --- | --- | | A. | Increased earnings |  |  |  | | --- | --- | | B. | Maximizing cash flow |  |  |  | | --- | --- | | **C.** | Maximizing shareholder wealth |  |  |  | | --- | --- | | D. | Minimizing risk of the firm | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #59 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 165. | In the past, the study of finance has included      |  |  | | --- | --- | | A. | mergers and acquisitions. |  |  |  | | --- | --- | | B. | raising capital. |  |  |  | | --- | --- | | C. | bankruptcy. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #60 Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 166. | Professor Merton Miller received the Nobel prize in economics for his work on      |  |  | | --- | --- | | A. | dividend policy. |  |  |  | | --- | --- | | B. | investment theory. |  |  |  | | --- | --- | | C. | working capital management. |  |  |  | | --- | --- | | **D.** | capital structure theory. | |

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| *Block - Chapter 01 #61 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas.* |

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| 167. | Professors Harry Markowitz and William Sharpe received their Nobel prize in economics for their contributions to the      |  |  | | --- | --- | | A. | options pricing model. |  |  |  | | --- | --- | | B. | theories of working capital management. |  |  |  | | --- | --- | | **C.** | theories of risk-return and portfolio theory. |  |  |  | | --- | --- | | D. | theories of international capital budgeting. | |

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| *Block - Chapter 01 #62 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas. Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 168. | Proper risk-return management means that      |  |  | | --- | --- | | A. | the firm should take as few risks as possible. |  |  |  | | --- | --- | | **B.** | the firm must determine an appropriate trade-off between risk and return. |  |  |  | | --- | --- | | C. | the firm should earn the highest return possible. |  |  |  | | --- | --- | | D. | the firm should value future profits more highly than current profits. | |

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| *Block - Chapter 01 #63 Blooms: Remember Difficulty: Basic Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 169. | One of the major disadvantages of a sole proprietorship is      |  |  | | --- | --- | | **A.** | that there is unlimited liability to the owner. |  |  |  | | --- | --- | | B. | the simplicity of decision making. |  |  |  | | --- | --- | | C. | low organizational costs. |  |  |  | | --- | --- | | D. | low operating costs. | |

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| *Block - Chapter 01 #64 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 170. | One of the major advantages of a sole proprietorship is      |  |  | | --- | --- | | A. | that the owner has limited liability. |  |  |  | | --- | --- | | B. | that stock in the proprietorship can be easily transferred. |  |  |  | | --- | --- | | C. | that it is exempt from many tax rules that would otherwise apply when employees are hired by the firm. |  |  |  | | --- | --- | | **D.** | low operating costs. | |

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| *Block - Chapter 01 #65 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 171. | The partnership form of an organization      |  |  | | --- | --- | | **A.** | avoids the double taxation of earnings and dividends found in the corporate form of organization. |  |  |  | | --- | --- | | B. | usually provides limited liability to the partners. |  |  |  | | --- | --- | | C. | has unlimited life. |  |  |  | | --- | --- | | D. | simplifies decision making. | |

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| *Block - Chapter 01 #66 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 172. | A corporation is      |  |  | | --- | --- | | A. | owned by stockholders who enjoy the privilege of limited liability. |  |  |  | | --- | --- | | B. | easily divisible between owners. |  |  |  | | --- | --- | | C. | a separate legal entity with perpetual life. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #67 Blooms: Remember Difficulty: Basic Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 173. | With a Subchapter S corporation      |  |  | | --- | --- | | **A.** | income is taxed as direct income to stockholders. |  |  |  | | --- | --- | | B. | stockholders have the same liability as members of a partnership. |  |  |  | | --- | --- | | C. | the number of stockholders is unlimited. |  |  |  | | --- | --- | | D. | life of the corporation is limited. | |

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| *Block - Chapter 01 #68 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 174. | A Subchapter S corporation      |  |  | | --- | --- | | A. | is similar to a partnership in that it carries unlimited liability. |  |  |  | | --- | --- | | B. | is a separate legal entity which is treated like a normal corporation. |  |  |  | | --- | --- | | **C.** | has all the organizational benefits of a corporation and its income is only taxed once. |  |  |  | | --- | --- | | D. | all of these. | |

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| *Block - Chapter 01 #69 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization.* |

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| 175. | Corporate governance is the      |  |  | | --- | --- | | **A.** | relationship and exercise of oversight by the board of directors of the company. |  |  |  | | --- | --- | | B. | relationship between the chief financial officer and institutional investors. |  |  |  | | --- | --- | | C. | operation of a company by the chief executive officer (CEO) and other senior executives on the management team. |  |  |  | | --- | --- | | D. | governance of the company by the board of directors with a focus on social responsibility. | |

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| *Block - Chapter 01 #70 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 176. | Many companies such as Tyco, Enron, and WorldCom that suffered financial distress in the late 1990s and early 2000s,      |  |  | | --- | --- | | A. | committed fraud. |  |  |  | | --- | --- | | B. | had failed corporate governance oversight. |  |  |  | | --- | --- | | C. | went bankrupt. |  |  |  | | --- | --- | | **D.** | all of these are true. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #71 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 177. | Agency theory examines the relationship between the      |  |  | | --- | --- | | A. | shareholders of the firm and the firm's investment banker. |  |  |  | | --- | --- | | **B.** | owners of the firm and the managers of the firm. |  |  |  | | --- | --- | | C. | board of directors and large institutional investors. |  |  |  | | --- | --- | | D. | shareholders and the firm's transfer agent. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #72 Blooms: Remember Difficulty: Basic Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 178. | Agency theory would imply that conflicts are more likely to occur between management and shareholders when      |  |  | | --- | --- | | A. | the company is owned and operated by the same person. |  |  |  | | --- | --- | | B. | management acts in the best interests of maximizing shareholder wealth. |  |  |  | | --- | --- | | **C.** | the chairman of the board is also the chief executive officer (CEO). |  |  |  | | --- | --- | | D. | the board of directors exerts strong and involved oversight of management. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #73 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 179. | Agency theory deals with the issue of      |  |  | | --- | --- | | A. | when to hire an agent to represent the firm in negotiations. |  |  |  | | --- | --- | | B. | the legal liabilities of a firm if an employee, acting as the firm's agent, injures someone. |  |  |  | | --- | --- | | C. | the limitations placed on an employee acting as the firm's agent to obligate or bind the firm. |  |  |  | | --- | --- | | **D.** | the conflicts that can arise between the viewpoints and motivations of a firm's owners and managers. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #74 Blooms: Understand Difficulty: Challenge Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 180. | Agency problems are least likely to arise in which organizational form?      |  |  | | --- | --- | | **A.** | Sole proprietorship |  |  |  | | --- | --- | | B. | Limited partnership |  |  |  | | --- | --- | | C. | Corporation |  |  |  | | --- | --- | | D. | Subchapter S corporation | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #75 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-02 A firm can have many different forms of organization. Learning Objective: 01-04* |

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| 181. | Institutional investors are important in today's business world because      |  |  | | --- | --- | | A. | as large investors they have more say in how businesses are managed. |  |  |  | | --- | --- | | B. | they have a fiduciary responsibility to the workers and investors that they represent to see that the firms they own are managed in an ethical way. |  |  |  | | --- | --- | | C. | as a group they can vote large blocks of stock for the election of board members. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #76 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 182. | The increasing percentage ownership of public corporations by institutional investors has      |  |  | | --- | --- | | A. | had no effect on corporate management. |  |  |  | | --- | --- | | B. | created higher returns for the stock market in general. |  |  |  | | --- | --- | | **C.** | created more pressure on public companies to manage their firms more efficiently. |  |  |  | | --- | --- | | D. | taken away the voice of the individual investor. | |

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| *Block - Chapter 01 #77 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 183. | The Sarbanes-Oxley Act was passed in an effort to      |  |  | | --- | --- | | A. | protect small business from large corporations dominating the market. |  |  |  | | --- | --- | | B. | ensure that partnerships divide profits among partners in a fair manner. |  |  |  | | --- | --- | | C. | guarantee outside auditors can control corporate accounting practices. |  |  |  | | --- | --- | | **D.** | control corrupt corporate behavior. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #78 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 184. | The Sarbanes-Oxley Act set up the Public Company Accounting Oversight Board with the responsibility for all of the following except      |  |  | | --- | --- | | A. | auditing standards within companies. |  |  |  | | --- | --- | | B. | controlling the quality of audits. |  |  |  | | --- | --- | | **C.** | Certifying the competence of financial executives. |  |  |  | | --- | --- | | D. | setting rules and standards for the independence of auditors. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #79 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 185. | A financial manager's goal of maximizing current or short-term earnings may not be appropriate because      |  |  | | --- | --- | | A. | it fails to consider the timing of the benefits. |  |  |  | | --- | --- | | B. | increased earnings may be accompanied by unacceptably higher levels of risk. |  |  |  | | --- | --- | | C. | earnings are subjective; they can be defined in various ways such as accounting or economic earnings. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #80 Blooms: Apply Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 186. | Maximization of shareholder wealth is a concept in which      |  |  | | --- | --- | | A. | increased earnings is of primary importance. |  |  |  | | --- | --- | | B. | profits are maximized on a quarterly basis. |  |  |  | | --- | --- | | C. | virtually all earnings are paid as dividends to common stockholders. |  |  |  | | --- | --- | | **D.** | optimally increasing the long-term value of the firm is emphasized. | |

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| *Block - Chapter 01 #81 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 187. | Which of the following is not a true statement about the goal of maximizing shareholder wealth?      |  |  | | --- | --- | | A. | It takes into account the timing of cash-flows. |  |  |  | | --- | --- | | **B.** | It is a short-run point of view which takes risk into account. |  |  |  | | --- | --- | | C. | It considers risk as a factor. |  |  |  | | --- | --- | | D. | None of these. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #82 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 188. | As mergers, acquisitions, and restructuring have increased in importance, agency theory has become more important in assessing whether      |  |  | | --- | --- | | A. | a stock repurchase should be undertaken. |  |  |  | | --- | --- | | **B.** | shareholder goals are truly being achieved by managers in the long run. |  |  |  | | --- | --- | | C. | managers are actually agents or only employees of the firm. |  |  |  | | --- | --- | | D. | managers and owners are actually the same people with the same interests. | |

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| *AACSB: Analytic Block - Chapter 01 #83 Blooms: Evaluate Difficulty: Challenge Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 189. | Insider trading occurs when      |  |  | | --- | --- | | **A.** | someone has information not available to the public which they use to profit from trading in stocks. |  |  |  | | --- | --- | | B. | corporate officers buy stock in their company. |  |  |  | | --- | --- | | C. | lawyers, investment bankers, and others buy common stock in companies represented by their firms. |  |  |  | | --- | --- | | D. | any stock transactions occur in violation of the Federal Trade Commissions restrictions on monopolies. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #84 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 190. | The major difficulty in most insider-trading cases has been      |  |  | | --- | --- | | A. | that lenient judges have simply released the guilty individuals. |  |  |  | | --- | --- | | B. | that insider trading, even though illegal, actually serves a beneficial economic and financial purpose. |  |  |  | | --- | --- | | **C.** | that inside trades have not been legally well defined. |  |  |  | | --- | --- | | D. | inside trades actually have a beneficial effect on the wealth of all stockholders. | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #85 Blooms: Understand Difficulty: Challenge Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 191. | Money markets would include which of the following securities?      |  |  | | --- | --- | | A. | Common stock and corporate bonds. |  |  |  | | --- | --- | | **B.** | Treasury bills and commercial paper. |  |  |  | | --- | --- | | C. | Certificates of deposit and preferred stock. |  |  |  | | --- | --- | | D. | All of these. | |

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| *Block - Chapter 01 #86 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 192. | Capital markets do not include which of the following securities?      |  |  | | --- | --- | | A. | Common stock |  |  |  | | --- | --- | | **B.** | Commercial paper |  |  |  | | --- | --- | | C. | Government bonds |  |  |  | | --- | --- | | D. | Preferred stock | |

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| *Block - Chapter 01 #87 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 193. | When a corporation uses the financial markets to raise new funds, the sale of securities is made in the      |  |  | | --- | --- | | **A.** | primary market. |  |  |  | | --- | --- | | B. | secondary market. |  |  |  | | --- | --- | | C. | on-line market. |  |  |  | | --- | --- | | D. | third market. | |

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| *Block - Chapter 01 #88 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 194. | Companies that have higher risk than a competitor in the same industry will generally have      |  |  | | --- | --- | | A. | to pay a higher interest rate than its competitors. |  |  |  | | --- | --- | | B. | a lower relative stock price than its competitors. |  |  |  | | --- | --- | | C. | a higher cost of funds than its competitors. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *AACSB: Analytic Block - Chapter 01 #89 Blooms: Evaluate Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 195. | The financial markets allocate capital to corporations by      |  |  | | --- | --- | | **A.** | reflecting expectations of the market participants in the prices of the corporations. |  |  |  | | --- | --- | | B. | requiring higher returns from companies with lower risk than their competitors. |  |  |  | | --- | --- | | C. | rewarding companies with expected high returns with lower relative stock prices. |  |  |  | | --- | --- | | D. | relying on the opinion of investment bankers. | |

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| *AACSB: Analytic Block - Chapter 01 #90 Blooms: Evaluate Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 196. | Corporate restructuring has been one result of more institutional ownership. Restructuring can cause      |  |  | | --- | --- | | A. | changes in the assets and liabilities of the firm. |  |  |  | | --- | --- | | B. | the sale of low-profit margin divisions. |  |  |  | | --- | --- | | C. | the removal of current management and/or large reductions in the workforce. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #91 Blooms: Remember Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 197. | A corporate buy-back, or the repurchasing of shares, is      |  |  | | --- | --- | | **A.** | an example of balance sheet restructuring. |  |  |  | | --- | --- | | B. | an excellent source of profits when the firm's stock is over-priced. |  |  |  | | --- | --- | | C. | a method of reducing the debt-to-equity ratio. |  |  |  | | --- | --- | | D. | all of these. | |

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| *Block - Chapter 01 #92 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 198. | A corporate restructuring can result in      |  |  | | --- | --- | | A. | changes in the capital structure. |  |  |  | | --- | --- | | B. | selling of low-profit margin divisions. |  |  |  | | --- | --- | | C. | reductions in the work force. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #93 Blooms: Remember Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 199. | Which of the following is not an example of restructuring as discussed in the text?      |  |  | | --- | --- | | A. | Repurchase of common stock |  |  |  | | --- | --- | | **B.** | Creating a new organizational chart |  |  |  | | --- | --- | | C. | Merging with companies in related industries |  |  |  | | --- | --- | | D. | Divesting of an unprofitable division | |

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| *Block - Chapter 01 #94 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 200. | Future financial managers will need to understand      |  |  | | --- | --- | | A. | international cash flows. |  |  |  | | --- | --- | | B. | computerized funds transfers. |  |  |  | | --- | --- | | C. | international currency hedging strategies. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *AACSB: Analytic Block - Chapter 01 #95 Blooms: Evaluate Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 201. | The increase in the internationalization of financial markets has led to      |  |  | | --- | --- | | A. | companies searching the global financial markets for low cost funds. |  |  |  | | --- | --- | | B. | an increase in American Depository Receipts (ADRs) on the New York Stock Exchange. |  |  |  | | --- | --- | | C. | an increase in debt obligations denominated in foreign currency on U.S. corporate balance sheets. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #96 Blooms: Understand Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 202. | The internationalization of the financial markets has      |  |  | | --- | --- | | **A.** | allowed firms such as McDonalds to raise capital around the world. |  |  |  | | --- | --- | | B. | raised the cost of capital. |  |  |  | | --- | --- | | C. | forced companies to price everything in U.S. dollars. |  |  |  | | --- | --- | | D. | all of these. | |

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| *Block - Chapter 01 #97 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 203. | The Internet has affected the financial markets by      |  |  | | --- | --- | | A. | creating more competition between markets. |  |  |  | | --- | --- | | B. | pushing the cost of trading down. |  |  |  | | --- | --- | | C. | forcing brokerage companies to consolidate. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| *Block - Chapter 01 #98 Blooms: Understand Difficulty: Basic Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 204. | Increased productivity due to technology has      |  |  | | --- | --- | | A. | increased corporations' reliance on debt for capital expansion needs. |  |  |  | | --- | --- | | B. | created larger asset values on the firm's historical balance sheet. |  |  |  | | --- | --- | | C. | made it cheaper (in terms of interest costs) for firms to borrow money. |  |  |  | | --- | --- | | **D.** | helped to keep corporate costs in check. | |

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| *Block - Chapter 01 #99 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

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| 205. | Companies that perform well      |  |  | | --- | --- | | A. | can sell their stock for a lower price |  |  |  | | --- | --- | | B. | can minimize dilution when issuing new shares |  |  |  | | --- | --- | | C. | can issue debt at a lower interest rate |  |  |  | | --- | --- | | **D.** | two of the above | |

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| *Block - Chapter 01 #100 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 206. | The entity that is responsible for establishing the allocation and cost of capital is      |  |  | | --- | --- | | A. | the corporation |  |  |  | | --- | --- | | B. | the economy |  |  |  | | --- | --- | | **C.** | investors |  |  |  | | --- | --- | | D. | customers | |

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| *Block - Chapter 01 #101 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 207. | Benefits of social responsibility often include      |  |  | | --- | --- | | **A.** | Better reputation |  |  |  | | --- | --- | | B. | Higher short-term earnings |  |  |  | | --- | --- | | C. | Lower expenses |  |  |  | | --- | --- | | D. | Two of the above | |

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| *AACSB: Ethics (ethical understanding and reasoning) Block - Chapter 01 #102 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 208. | Regarding risk levels, financial managers should      |  |  | | --- | --- | | A. | pursue higher risk projects because they increase value |  |  |  | | --- | --- | | B. | avoid higher risk projects because they destroy value |  |  |  | | --- | --- | | C. | focus primarily on market fluctuations |  |  |  | | --- | --- | | **D.** | evaluate investor's desire for risk | |

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| *AACSB: Analytic Block - Chapter 01 #103 Blooms: Analyze Difficulty: Intermediate Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.* |

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| 209. | Match the following with the questions below:      |  |  |  | | --- | --- | --- | | 1. insider trading | The ability to make profits on financial securities because of having Knowledge not available to the public. | **1** | | 2. articles of partnership | An agreement of partners specifying the ownership interest of a company. | **2** | | 3. capital structure theory | A form of organization that represents single person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs. | **6** | | 4. subchapter S corporation | Separate legal entity owned by shareholders who only have limited liability. | **7** | | 5. partnership | The study of the relative importance of debt and equity. | **3** | | 6. sole proprietorship | Examines the relationship between the owners of the firm and the managers of the firm. | **8** | | 7. corporation | A form of ownership, in which profit is taxed as direct income to the stockholders and thus is only taxed once. | **4** | | 8. agency theory | A form of ownership that carries unlimited liability to the owners and where the profits are taxed at individual tax rates of the owners. | **5** | |

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| *Block - Chapter 01 #104 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas. Learning Objective: 01-02 A firm can have many different forms of organization. A firm can have many different forms of organization. Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders. The primary goal of financial managers is to maximize the wealth of the shareholders.* |

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| 210. | Match the following with the questions below:      |  |  |  | | --- | --- | --- | | 1. primary market | This form of capital is found on the balance sheet under long-term liabilities and equity. | **4** | | 2. restructuring | The purchasing power of the dollar shrinks over time. | **8** | | 3. money market | A market where the securities being traded are new public offerings. | **1** | | 4. financial capital | Securities with a maturity of less than 1 year. | **3** | | 5. secondary market | Redeploying the asset and liability structure of the firm. | **2** | | 6. real capital | A leveling off or slowing down of price increases. | **9** | | 7. capital market | Market composed of common stock, preferred stock, commercial and government bonds and other long-term securities. | **7** | | 8. inflation | This market trades previously issued securities. | **5** | | 9. disinflation | The high inflation rates of the 1980s caused this form of capital to hold its value better than other forms of capital during this time period. | **6** | |

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| *Block - Chapter 01 #105 Blooms: Understand Difficulty: Intermediate Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas. Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds. Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.* |

Chapter 1 Summary

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| *Category* | *# of Questions* |
| AACSB: Analytic | 10 |
| AACSB: Ethics (ethical understanding and reasoning) | 32 |
| Block - Chapter 01 | 210 |
| Blooms: Analyze | 1 |
| Blooms: Analyze | 1 |
| Blooms: Apply | 2 |
| Blooms: Apply | 2 |
| Blooms: Evaluate | 5 |
| Blooms: Evaluate | 5 |
| Blooms: Remember | 49 |
| Blooms: Remember | 49 |
| Blooms: Understand | 47 |
| Blooms: Understand | 47 |
| Blooms: Understanding | 1 |
| Blooms: Understanding | 1 |
| Difficulty: Basic | 118 |
| Difficulty: Challenge | 6 |
| Difficulty: Intermediate | 86 |
| Learning Objective: 01-01 The field of finance integrates concepts from economics; accounting; and a number of other areas. | 42 |
| Learning Objective: 01-02 A firm can have many different forms of organization. | 30 |
| Learning Objective: 01-02 A firm can have many different forms of organization. A firm can have many different forms of organization. | 6 |
| Learning Objective: 01-03 The relationship of risk to return is a central focus of finance. | 12 |
| Learning Objective: 01-04 | 2 |
| Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders. | 70 |
| Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders. The primary goal of financial managers is to maximize the wealth of the shareholders. | 4 |
| Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds. | 50 |
| Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds. Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds. | 6 |