

Chapter 1

Student: _____

1. Which one of the following functions should be the responsibility of the controller rather than the treasurer?
 - A. Daily cash deposit
 - B. Income tax returns
 - C. Equipment purchase analysis
 - D. Customer credit approval
 - E. Payment to a vendor
2. The controller of a corporation generally reports directly to the:
 - A. board of directors.
 - B. chairman of the board.
 - C. chief executive officer.
 - D. president.
 - E. deputy director of finance.
3. Which one of the following correctly defines the upward chain of command in a typical corporate organizational structure?
 - A. The Chief financial officer reports to the chairman of the board.
 - B. The chief executive officer reports to chairman.
 - C. The controller reports to the chairman.
 - D. The treasurer reports to the chief financial officer.
 - E. The chief operations officer reports to the non-executive directors.
4. Which one of the following is a capital budgeting decision?
 - A. Determining how many shares of equity to issue
 - B. Deciding whether or not to purchase a new machine for the production line
 - C. Deciding how to refinance a debt issue that is maturing
 - D. Determining how much inventory to keep on hand
 - E. Determining how much money should be kept in the checking account
5. Which one of the following is a capital structure decision?
 - A. Determining which one of two projects to accept
 - B. Determining how to allocate investment funds to multiple projects
 - C. Determining the amount of funds needed to finance customer purchases of a new product
 - D. Determining how much debt should be assumed to fund a project
 - E. Determining how much inventory will be needed to support a project
6. The decision to issue additional shares of equity is an example of which one of the following?
 - A. Working capital management
 - B. Net working capital decision
 - C. Capital budgeting
 - D. Controller's duties
 - E. Capital structure decision
7. Which one of the following is a working capital management decision?
 - A. Determining the amount of equipment needed to complete a job
 - B. Determining whether to pay cash for a purchase or use the credit offered by the supplier
 - C. Determining the amount of long-term debt required to complete a project
 - D. Determining the number of shares of stock to issue to fund an acquisition
 - E. Determining whether or not a project should be accepted

8. Why should financial managers strive to maximize the current share price?
- A. Doing so guarantees the company will grow in size at the maximum possible rate
 - B. Doing so increases employee salaries
 - C. Because they have been hired to represent the interests of the current shareholders
 - D. Because this will increase the current dividends per share
 - E. Because managers often receive shares of equity as part of their compensation
9. Decisions made by financial managers should primarily focus on increasing which one of the following?
- A. The size of the firm
 - B. The growth rate of the firm
 - C. The gross profit per unit produced
 - D. The market value per share of outstanding equity
 - E. The total sales
10. Which one of the following is a primary market transaction?
- A. Sale of currently outstanding equity by a dealer to an individual investor
 - B. Sale of a new share of equity to an individual investor
 - C. Equity ownership transfer from one shareholder to another shareholder
 - D. Gift of shares from one shareholder to another shareholder
 - E. Gift of shares by a shareholder to a family member
11. Shareholder A sold shares of Maplewood Cabinets equity to Shareholder B. The equity is listed on Euronext. This trade occurred in which one of the following?
- A. Primary, dealer market
 - B. Secondary, dealer market
 - C. Primary, auction market
 - D. Secondary, auction market
 - E. Secondary, OTC market
12. List and briefly describe the three general areas of responsibility for a financial manager.
13. List and briefly describe the three basic questions addressed by a financial manager.

14. What should be the goal of the financial manager of a corporation? Why?
15. Assume for a moment that the shareholders in a corporation have unlimited liability for corporate debts. If so, what impact would this have on the functioning of primary and secondary markets for ordinary equity?
16. Suppose you own 100 shares of Vodafone which you intend to sell today. Since you will sell it in the secondary market, Vodafone will receive no direct cash flows as a consequence of your sale. Why, then, should Vodafone's management care about the price you get for your shares?

17. Why might a corporation wish to list its shares on a national exchange such as the London Stock Exchange as opposed to a small company exchange, such as AIM?
18. Why is stock market liquidity important?
19. Google makes a lot of money from advertising and other sources. It wants to continue to expand its activities. Assume that it does not want to issue new shares, and then explain why it cannot retain all its cash flows.
20. Investments typically result in negative and positive cashflows. Explain the importance of cash flow timing.
21. The person generally directly responsible for overseeing the cash and credit functions, financial planning, and capital expenditures is the:
- A. treasurer.
 - B. director.
 - C. controller.
 - D. chairman of the board.
 - E. chief operations officer.
22. The process of planning and managing a firm's long-term investments is called:
- A. working capital management.
 - B. financial depreciation.
 - C. agency cost analysis.
 - D. capital budgeting.
 - E. capital structure.

23. The mixture of debt and equity used by a firm to finance its operations is called:
- A. working capital management.
 - B. financial depreciation.
 - C. cost analysis.
 - D. capital budgeting.
 - E. capital structure.
24. The management of a firm's short-term assets and liabilities is called:
- A. working capital management.
 - B. debt management.
 - C. equity management.
 - D. capital budgeting.
 - E. capital structure.
25. The original sale of securities by governments and corporations to the general public occurs in the:
- A. primary market.
 - B. secondary market.
 - C. private placement market.
 - D. proprietary market.
 - E. liquidation market.
26. When one shareholder sells equity directly to another, the transaction is said to occur in the:
- A. dealer market.
 - B. primary market.
 - C. secondary market.
 - D. OTC market.
 - E. NASDAQ market.
27. The primary market is defined as the:
- A. market for insured securities.
 - B. market for new issues.
 - C. market for securities of the largest firms.
 - D. over-the-counter market.
 - E. None of the above.
28. On the secondary market:
- A. investors cannot transfer ownership of securities.
 - B. firms sell securities to raise cash.
 - C. securities are resold.
 - D. only small firms are active.
 - E. None of the above.
29. Consider the following statements about exchanges:
- (i) Over-the counter markets have no dealers.
 - (ii) Auction markets are purely electronic markets.
- Which of the above statements are correct?
- A. (i) is correct.
 - B. (ii) is correct.
 - C. (i) is correct and (ii) is incorrect.
 - D. (i) and (ii) are both correct
 - E. (i) and (ii) are both incorrect.

30. In October 2013, the British government issued Royal Mail shares to the public. Was this a primary or secondary market transaction? Explain. Your answer will require independent research on the Royal Mail share issue.
31. Explain what is meant by Corporate Finance. Is it possible to apply corporate finance principles to non-corporate organizations, like charities?
32. Explain the differences between the finance and accounting functions of a firm.
33. Explain what is meant by Capital Structure. Describe the two main types of corporate financing and how they differ from each other.

34. Explain what is meant by Capital Budgeting. Give a real life example of a capital budgeting decision.
35. Explain what is meant by Working Capital Management and why it is so important to a firm. Can a firm make good investment decisions and still have poor working capital management? Explain.
36. What is more important to a firm - to maximize profits or maximize value? Explain.
37. What is the most appropriate goal for a financial manager? Is this the same in all firms? Explain.
38. 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. online market.
 - D. third market.
39. 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 that takes risk into account.
 - C. It considers risk as a factor.
 - D. None of the options is a false statement.

40. 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.
41. 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 the options.
42. 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.
43. The study of finance involves:
- A. mergers and acquisitions.
 - B. raising capital.
 - C. bankruptcy.
 - D. All of the options.
44. What type of market must you enter to buy international currency?
- A. Dealer
 - B. Auction
 - C.
 - D.

Chapter 1 Key

1. Which one of the following functions should be the responsibility of the controller rather than the treasurer?
- A. Daily cash deposit
 - B. Income tax returns**
 - C. Equipment purchase analysis
 - D. Customer credit approval
 - E. Payment to a vendor

Difficulty: Basic
Hillier - Chapter 01 #1

Learning Objective: 01-01 The basic types of financial management decision, and the role of the financial manager.

Section: 1.1

Topic: Financial management

2. The controller of a corporation generally reports directly to the:
- A. board of directors.
 - B. chairman of the board.
 - C. chief executive officer.
 - D. president.
 - E. deputy director of finance.**

Difficulty: Basic
Hillier - Chapter 01 #2

Learning Objective: 01-01 The basic types of financial management decision, and the role of the financial manager.

Section: 1.1

Topic: Corporate structure

3. Which one of the following correctly defines the upward chain of command in a typical corporate organizational structure?
- A. The Chief financial officer reports to the chairman of the board.
 - B. The chief executive officer reports to chairman.
 - C. The controller reports to the chairman.
 - D. The treasurer reports to the chief financial officer.**
 - E. The chief operations officer reports to the non-executive directors.

Difficulty: Basic
Hillier - Chapter 01 #3

Learning Objective: 01-01 The basic types of financial management decision, and the role of the financial manager.

Section: 1.1

Topic: Corporate structure

4. Which one of the following is a capital budgeting decision?
- A. Determining how many shares of equity to issue
 - B. Deciding whether or not to purchase a new machine for the production line**
 - C. Deciding how to refinance a debt issue that is maturing
 - D. Determining how much inventory to keep on hand
 - E. Determining how much money should be kept in the checking account

Difficulty: Basic
Hillier - Chapter 01 #4

Learning Objective: 01-01 The basic types of financial management decision, and the role of the financial manager.

Section: 1.1

Topic: Capital budgeting

5. Which one of the following is a capital structure decision?
- A. Determining which one of two projects to accept
 - B. Determining how to allocate investment funds to multiple projects
 - C. Determining the amount of funds needed to finance customer purchases of a new product
 - D. Determining how much debt should be assumed to fund a project**
 - E. Determining how much inventory will be needed to support a project

Difficulty: Basic
Hillier - Chapter 01 #5

Learning Objective: 01-01 The basic types of financial management decision, and the role of the financial manager.

Section: 1.1

Topic: Capital structure

6. The decision to issue additional shares of equity is an example of which one of the following?
- A. Working capital management
 - B. Net working capital decision
 - C. Capital budgeting
 - D. Controller's duties
 - E. Capital structure decision**

Difficulty: Basic
Hillier - Chapter 01 #6
Learning Objective: 01-01 The basic types of financial management decision, and the role of the financial manager.
Section: 1.1
Topic: Capital structure

7. Which one of the following is a working capital management decision?
- A. Determining the amount of equipment needed to complete a job
 - B. Determining whether to pay cash for a purchase or use the credit offered by the supplier**
 - C. Determining the amount of long-term debt required to complete a project
 - D. Determining the number of shares of stock to issue to fund an acquisition
 - E. Determining whether or not a project should be accepted

Difficulty: Basic
Hillier - Chapter 01 #7
Learning Objective: 01-01 The basic types of financial management decision, and the role of the financial manager.
Section: 1.1
Topic: Working capital management

8. Why should financial managers strive to maximize the current share price?
- A. Doing so guarantees the company will grow in size at the maximum possible rate
 - B. Doing so increases employee salaries
 - C. Because they have been hired to represent the interests of the current shareholders**
 - D. Because this will increase the current dividends per share
 - E. Because managers often receive shares of equity as part of their compensation

Difficulty: Intermediate
Hillier - Chapter 01 #8
Learning Objective: 01-02
Section: 1.2
Topic: Goal of financial management

9. Decisions made by financial managers should primarily focus on increasing which one of the following?
- A. The size of the firm
 - B. The growth rate of the firm
 - C. The gross profit per unit produced
 - D. The market value per share of outstanding equity**
 - E. The total sales

Difficulty: Intermediate
Hillier - Chapter 01 #9
Learning Objective: 01-02
Section: 1.2

Topic: Goal of financial management

10. Which one of the following is a primary market transaction?
- A. Sale of currently outstanding equity by a dealer to an individual investor
 - B. Sale of a new share of equity to an individual investor**
 - C. Equity ownership transfer from one shareholder to another shareholder
 - D. Gift of shares from one shareholder to another shareholder
 - E. Gift of shares by a shareholder to a family member

Difficulty: Basic
Hillier - Chapter 01 #10
Learning Objective: 01-03 How financial markets work and the reason they exist.
Section: 1.3
Topic: Primary market

11. Shareholder A sold shares of Maplewood Cabinets equity to Shareholder B. The equity is listed on Euronext. This trade occurred in which one of the following?
- A. Primary, dealer market
 - B. Secondary, dealer market
 - C. Primary, auction market
 - D. Secondary, auction market**
 - E. Secondary, OTC market

Difficulty: Intermediate

Hillier - Chapter 01 #11

Learning Objective: 01-03 How financial markets work and the reason they exist.

Section: 1.3

Topic: Secondary auction market

12. List and briefly describe the three general areas of responsibility for a financial manager.

The three basic areas are:

1. Capital budgeting: the identification of investment opportunities that have a positive net value.
2. Capital structure: the mix of long-term debt and equity used to finance a firm's operations.
3. Working capital management: the daily control of a firm's short-term assets and short-term liabilities.

Difficulty: Intermediate

Hillier - Chapter 01 #12

Learning Objective: 01-01

Section: 1.1

Topic: Financial manager

13. List and briefly describe the three basic questions addressed by a financial manager.

The three areas are:

1. Capital budgeting: The financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire.
2. Capital structure: This refers to the specific mixture of long-term debt and equity a firm uses to finance its operations.
3. Working capital management: This refers to a firm's short-term assets and short-term liabilities. Managing the firm's working capital is a day-to-day activity that ensures the firm has sufficient resources to continue its operations and avoid costly interruptions.

Difficulty: Intermediate

Hillier - Chapter 01 #13

Learning Objective: 01-01

Section: 1.1

Topic: Financial Management

14. What should be the goal of the financial manager of a corporation? Why?

The correct goal is to maximize the current value of the outstanding shares. This goal focuses on enhancing the returns to shareholders who are the owners of the firm. Other goals, such as maximizing earnings, focus too narrowly on accounting income and ignore the importance of market values in managerial finance.

Difficulty: Intermediate

Hillier - Chapter 01 #14

Learning Objective: 01-02

Section: 1.2

Topic: Financial Management Goal

15. Assume for a moment that the shareholders in a corporation have unlimited liability for corporate debts. If so, what impact would this have on the functioning of primary and secondary markets for ordinary equity?

With unlimited liability, you would be very careful which shares you invest in. In particular, you would not invest in companies you expected to be unable to satisfy their financial obligations. Both the primary and secondary markets for ordinary equity would be severely hampered if this rule existed. It would be very difficult for a young, untested business to acquire enough capital to grow.

Difficulty: Challenge

Hillier - Chapter 01 #15

Learning Objective: 01-03 How financial markets work and the reason they exist.

Section: 1.3

Topic: Limited Liability

16. Suppose you own 100 shares of Vodafone which you intend to sell today. Since you will sell it in the secondary market, Vodafone will receive no direct cash flows as a consequence of your sale. Why, then, should Vodafone's management care about the price you get for your shares?

The current market price of Vodafone equity reflects, among other things, market opinion about the quality of firm management. If the shareholder's sale price is low, this indirectly reflects on the reputation of the managers, as well as potentially impacting their standing in the employment market. Alternatively, if the sale price is high, this indicates that the market believes current management is increasing firm value and therefore doing a good job.

Difficulty: Challenge

Hillier - Chapter 01 #16

Learning Objective: 01-03 How financial markets work and the reason they exist.

Section: 1.3

Topic: Financial Management Goal

17. Why might a corporation wish to list its shares on a national exchange such as the London Stock Exchange as opposed to a small company exchange, such as AIM?

Being listed on a small company exchange effectively limits the capital access for the business. Plus, there is a prestige factor in being listed on one of the national exchanges. There is still a perceived prestige factor in moving from AIM to the London Stock Exchange (LSE) since the LSE has more restrictive membership requirements.

Difficulty: Challenge

Hillier - Chapter 01 #17

Learning Objective: 01-03 How financial markets work and the reason they exist.

Section: 1.3

Topic: Exchange Listings

18. Why is stock market liquidity important?

Stock market liquidity is very important to a financial manager because the easier and cheaper it is to trade the shares of a company, the more demand there will be in the firm. Recent research has actually shown that companies have higher values when their shares are liquid and heavily traded, even after taking out all other factors that may drive valuation differences. In addition, having numerous options on where to trade a company's shares does not harm the value, and in fact can make pricing of the shares more efficient.

Difficulty: Intermediate

Hillier - Chapter 01 #18

Learning Objective: 01-03 How financial markets work and the reason they exist.

Section: 1.3

Topic: Exchange Listings

19. Google makes a lot of money from advertising and other sources. It wants to continue to expand its activities. Assume that it does not want to issue new shares, and then explain why it cannot retain all its cash flows.

See Figure 1.2. Google will have to pay its bondholders, and perhaps also its shareholders (F). In addition, it has to pay taxes, assuming it makes a profit (D). Since it does not issue new shares, it does not get cash for securities issued (A). As a result, it cannot retain all its cash flows ($E < C$).

Difficulty: Challenge
Hillier - Chapter 01 #19
Learning Objective: 01-01
Section: 1.4

Topic: Financial Management

Topic: Financial Management Decisions

20. Investments typically result in negative and positive cashflows. Explain the importance of cash flow timing.

See Example 1.4. The timing of cash flows is important because it helps you understand the riskiness of an investment: the earlier you break even on the investment, and start making a profit, the better. Generally speaking the longer it takes to start earning positive cash flows, the worse it is.

Difficulty: Intermediate
Hillier - Chapter 01 #20
Learning Objective: 01-03 How financial markets work and the reason they exist.
Section: 1.3

Topic: Financial Management

21. The person generally directly responsible for overseeing the cash and credit functions, financial planning, and capital expenditures is the:

A. treasurer.
B. director.
C. controller.
D. chairman of the board.
E. chief operations officer.

Difficulty: Basic
Hillier - Chapter 01 #21
Learning Objective: 01-01
Section: 1.1
Topic: Treasurer

22. The process of planning and managing a firm's long-term investments is called:

A. working capital management.
B. financial depreciation.
C. agency cost analysis.
D. capital budgeting.
E. capital structure.

Difficulty: Basic
Hillier - Chapter 01 #22
Learning Objective: 01-01
Section: 1.1
Topic: Capital Budgeting

23. The mixture of debt and equity used by a firm to finance its operations is called:

A. working capital management.
B. financial depreciation.
C. cost analysis.
D. capital budgeting.
E. capital structure.

Difficulty: Basic
Hillier - Chapter 01 #23
Section: 1.1
Topic: Capital Structure

24. The management of a firm's short-term assets and liabilities is called:
A. working capital management.
B. debt management.
C. equity management.
D. capital budgeting.
E. capital structure.

Difficulty: Basic
Hillier - Chapter 01 #24
Learning Objective: 01-01
Section: 1.1

Topic: Working Capital Management

25. The original sale of securities by governments and corporations to the general public occurs in the:
A. primary market.
B. secondary market.
C. private placement market.
D. proprietary market.
E. liquidation market.

Difficulty: Basic
Hillier - Chapter 01 #25
Learning Objective: 01-03 How financial markets work and the reason they exist.
Section: 1.3

Topic: Primary Market

26. When one shareholder sells equity directly to another, the transaction is said to occur in the:
A. dealer market.
B. primary market.
C. secondary market.
D. OTC market.
E. NASDAQ market.

Difficulty: Basic
Hillier - Chapter 01 #26
Learning Objective: 01-03 How financial markets work and the reason they exist.
Section: 1.3

Topic: Secondary Market

27. The primary market is defined as the:
A. market for insured securities.
B. market for new issues.
C. market for securities of the largest firms.
D. over-the-counter market.
E. None of the above.

Difficulty: Basic
Hillier - Chapter 01 #27
Learning Objective: 01-03 How financial markets work and the reason they exist.
Section: 1.3

Topic: Primary Markets

28. On the secondary market:
A. investors cannot transfer ownership of securities.
B. firms sell securities to raise cash.
C. securities are resold.
D. only small firms are active.
E. None of the above.

Difficulty: Basic
Hillier - Chapter 01 #28
Learning Objective: 01-03 How financial markets work and the reason they exist.
Section: 1.3

Topic: Secondary Market

29. Consider the following statements about exchanges:

- (i) Over-the counter markets have no dealers.
- (ii) Auction markets are purely electronic markets.

Which of the above statements are correct?

- A. (i) is correct.
- B. (ii) is correct.
- C. (i) is correct and (ii) is incorrect.
- D. (i) and (ii) are both correct
- E. (i) and (ii) are both incorrect.**

*Difficulty: Basic
Hillier - Chapter 01 #29*

*Learning Objective: 01-03 How financial markets work and the reason they exist.
Section: 1.3*

Topic: Secondary Markets

30. In October 2013, the British government issued Royal Mail shares to the public. Was this a primary or secondary market transaction? Explain. Your answer will require independent research on the Royal Mail share issue.

(p. 10)

The issue was a secondary market transaction because the funds that were raised went to the government rather than Royal Mail.

*Difficulty: Challenge
Hillier - Chapter 01 #30*

*Learning Objective: 01-03 How financial markets work and the reason they exist.
Section: 1.3*

Topic: Market Transactions

31. Explain what is meant by Corporate Finance. Is it possible to apply corporate finance principles to non-corporate organizations, like charities?

(p. 4)

Corporate Finance relates to three main areas: the investment decision, the capital structure decision and short-term capital management. It is possible to apply corporate finance principles to charities, but they must be adapted to be more aligned to the objectives and constraints of the organization. So, for example, a charity should not consider making a profit but it should be investing in assets that add value.

*Difficulty: Challenge
Hillier - Chapter 01 #31*

*Learning Objective: 01-02 The goal of financial management.
Section: 1.2*

Topic: Goal of financial management

32. Explain the differences between the finance and accounting functions of a firm.

(p. 4)

The finance function is concerned with investment, capital structure and short-term capital management. The accounting function takes all the financial information and data that arises as a result of ongoing business activities, and presents this in ways that allow management to assess the performance and risk of their firm (financial accounting) and make informed decisions on future corporate activity (management accounting).

*Difficulty: Intermediate
Hillier - Chapter 01 #32*

*Learning Objective: 01-01
Section: 1.1*

Topic: Financial Management Decisions

33. Explain what is meant by Capital Structure. Describe the two main types of corporate financing and how they differ from each other.
(p. 5)

Capital structure is the mix of financing sources in a firm. The two main types of financing are Debt and Equity. Debt is borrowing and Equity is ownership.

Difficulty: Challenge
Hillier - Chapter 01 #33
Learning Objective: 01-01
Section: 1.1
Topic: Capital structure

34. Explain what is meant by Capital Budgeting. Give a real life example of a capital budgeting decision.
(p. 5)

The process of planning and managing a firm's long-term investments is called capital budgeting. In capital budgeting, the financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire. Students should take a real-life example from the news.

Difficulty: Challenge
Hillier - Chapter 01 #34
Learning Objective: 01-01
Section: 1.1
Topic: Capital Budgeting

35. Explain what is meant by Working Capital Management and why it is so important to a firm. Can a firm make good investment decisions and still have poor working capital management? Explain.
(p. 6)

Working capital refers to a firm's short-term assets. It is so important to a firm because if it runs out of money it can go bankrupt. A firm can make good investment decisions and have a wonderful business model. However, if it does not manage its working capital, it can very quickly get into financial distress.

Difficulty: Challenge
Hillier - Chapter 01 #35
Learning Objective: 01-01
Section: 1.1
Topic: Working Capital Management

36. What is more important to a firm - to maximize profits or maximize value? Explain.
(p. 7)

Both are very important. However, a firm's profit is an accounting notion and should not be the basis of investment decisions. Maximizing value is more important because it is this that actually matters to investors. A firm can maximize value but be making a loss (this happens to many new companies).

Difficulty: Intermediate
Hillier - Chapter 01 #36
Learning Objective: 01-02 The goal of financial management.
Section: 1.2
Topic: Financial Management Goal
Topic: Goal of financial management

37. What is the most appropriate goal for a financial manager? Is this the same in all firms? Explain.
(p. 8)

The most appropriate goal for a financial manager is to maximize the value of its equity. This will in turn maximize the value of the firm. This should be the same for all firms.

Difficulty: Challenge
Hillier - Chapter 01 #37
Learning Objective: 01-02
Section: 1.2
Topic: Financial Management Goal

38. 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. online market.
 - D. third market.

Difficulty: Basic

Hillier - Chapter 01 #38

Learning Objective: 01-03 How financial markets work and the reason they exist.

Section: 1.3

Topic: Primary Markets

39. 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 that takes risk into account.
 - C. It considers risk as a factor.
 - D. None of the options is a false statement.

Difficulty: Intermediate

Hillier - Chapter 01 #39

Learning Objective: 01-02

Section: 1.2

Topic: Goal of financial management

40. 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.

Difficulty: Intermediate

Hillier - Chapter 01 #40

Learning Objective: 01-02

Section: 1.2

Topic: Goal of financial management

41. 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 the options.

Difficulty: Intermediate

Hillier - Chapter 01 #41

Learning Objective: 01-02

Section: 1.2

Topic: Goal of financial management

42. 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.

Difficulty: Basic

Hillier - Chapter 01 #42

43. The study of finance involves:
- A. mergers and acquisitions.
 - B. raising capital.
 - C. bankruptcy.
 - D.** All of the options.

Difficulty: Basic

Hillier - Chapter 01 #43

Learning Objective: 01-03 How financial markets work and the reason they exist.

Section: 1.1

Topic: Finance

44. What type of market must you enter to buy international currency?
- A. Dealer
 - B. Auction
 - C.
 - D.

Explanation: The international currency markets are traded across a network of foreign exchange dealers. As a result, this is a dealer market.

Difficulty: Basic

Hillier - Chapter 01 #44

Learning Objective: 01-03 How financial markets work and the reason they exist.

Section: 1.3

Topic: International Finance

Chapter 1 Summary

| <u>Category</u> | <u># of Questions</u> |
|--------------------------------------------------------------------------------------------------------------------|-----------------------|
| Difficulty: Basic | 21 |
| Difficulty: Challenge | 10 |
| Difficulty: Intermediate | 13 |
| Hillier - Chapter 01 | 88 |
| Learning Objective: 01-01 | 10 |
| Learning Objective: 01-01 The basic types of financial management decision, and the role of the financial manager. | 7 |
| Learning Objective: 01-02 | 8 |
| Learning Objective: 01-02 The goal of financial management. | 2 |
| Learning Objective: 01-03 How financial markets work and the reason they exist. | 16 |
| Section: 1.1 | 18 |
| Section: 1.2 | 9 |
| Section: 1.3 | 15 |
| Section: 1.4 | 1 |
| Topic: Capital budgeting | 1 |
| Topic: Capital Budgeting | 2 |
| Topic: Capital structure | 3 |
| Topic: Capital Structure | 1 |
| Topic: Corporate structure | 2 |
| Topic: Exchange Listings | 2 |
| Topic: Finance | 1 |
| Topic: Financial management | 1 |
| Topic: Financial Management | 3 |
| Topic: Financial Management Decisions | 2 |
| Topic: Financial Management Goal | 4 |
| Topic: Financial manager | 1 |
| Topic: Goal of financial management | 7 |
| Topic: International Finance | 1 |
| Topic: Limited Liability | 1 |
| Topic: Market Transactions | 1 |
| Topic: Primary market | 1 |
| Topic: Primary Market | 1 |
| Topic: Primary Markets | 2 |
| Topic: Secondary auction market | 1 |
| Topic: Secondary Market | 2 |
| Topic: Secondary Markets | 1 |
| Topic: Treasurer | 1 |
| Topic: Working capital management | 1 |
| Topic: Working Capital Management | 2 |