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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. Which of the following is *not* one of the three major areas of finance?

|  |  |  |
| --- | --- | --- |
|   | a.  | Accounting |
|   | b.  | Investments and financial markets |
|   | c.  | Financial management of companies |
|   | d.  | The banking system |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| 2. Financial assets can be distinguished from real assets in that financial assets:

|  |  |  |
| --- | --- | --- |
|   | a.  | are pieces of paper rather than tangible, physical objects. |
|   | b.  | are not intended to provide services like transportation or shelter. |
|   | c.  | have value because they provide their owners with claims to future cash flows. |
|   | d.  | All of the above |

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| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. Financial assets:

|  |  |  |
| --- | --- | --- |
|   | a.  | include cars, houses, and factory equipment. |
|   | b.  | provide some kind of service. |
|   | c.  | have value because of claims to future cash flows. |
|   | d.  | are not legal documents. |

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| --- | --- |
| *ANSWER:* | c |

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| 4. Financial assets like stocks and bonds have value because:

|  |  |  |
| --- | --- | --- |
|   | a.  | they represent ownership of companies. |
|   | b.  | people are proud to own them. |
|   | c.  | they provide tangible benefits as do real assets. |
|   | d.  | they give their owners command over future cash flows. |

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| --- | --- |
| *ANSWER:* | d |

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| 5. A \_\_\_\_ pools the contributions of many investors and employs a professional manager to select securities that match a particular set of investment goals.

|  |  |  |
| --- | --- | --- |
|   | a.  | mutual fund |
|   | b.  | stock |
|   | c.  | bond |
|   | d.  | real asset |

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| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. Which of the following is not a real asset?

|  |  |  |
| --- | --- | --- |
|   | a.  | Equipment |
|   | b.  | Land |
|   | c.  | Stock |
|   | d.  | None of the above |

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| --- | --- |
| *ANSWER:* | c |

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| 7. The prices that investors pay for securities are determined by:

|  |  |  |
| --- | --- | --- |
|   | a.  | The collateral of the firm's liabilities and the profitability of the firm. |
|   | b.  | The profits of the firm and the stability of those profits. |
|   | c.  | What financial advisors think of the company. |
|   | d.  | The cash flows investors expect to receive from owning them. |

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| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. Which of the following represents a real asset?

|  |  |  |
| --- | --- | --- |
|   | a.  | Land |
|   | b.  | Bonds |
|   | c.  | Stocks |
|   | d.  | Both a & c |
|   | e.  | All of the above |

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| --- | --- |
| *ANSWER:* | a |

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| 9. Financial assets:

|  |  |  |
| --- | --- | --- |
|   | a.  | are legal documents. |
|   | b.  | give their owners claims to past cash flows. |
|   | c.  | include stocks and bonds. |
|   | d.  | Both a & c |
|   | e.  | All of the above |

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| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. A person buying a \_\_\_\_ is called an investor.

|  |  |  |
| --- | --- | --- |
|   | a.  | bond |
|   | b.  | stock |
|   | c.  | mutual fund |
|   | d.  | All of the above |

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| --- | --- |
| *ANSWER:* | d |

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| 11. The principal legal difference between a stockholder and a bondholder is:

|  |  |  |
| --- | --- | --- |
|   | a.  | the stockholder receives interest and the bondholder receives dividends. |
|   | b.  | only the bondholder can attend annual meetings. |
|   | c.  | the bondholder has an ownership interest and the shareholder is a lender. |
|   | d.  | the shareholder has an ownership interest and the bondholder is a lender. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 12. A loan backed by an asset the lender can sell to pay off the loan if the borrower defaults is called \_\_\_\_\_.

|  |  |  |
| --- | --- | --- |
|   | a.  | amortized |
|   | b.  | collateralized |
|   | c.  | guaranteed |
|   | d.  | riskless |

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| --- | --- |
| *ANSWER:* | b |

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| 13. Which of the following is true of financial assets?

|  |  |  |
| --- | --- | --- |
|   | a.  | Companies issue financial assets to earn revenue. |
|   | b.  | Investors purchase financial assets to earn a return. |
|   | c.  | The ownership of financial assets cannot be transferred. |
|   | d.  | Investors purchase financial assets because they are virtually risk free. |

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| *ANSWER:* | b |

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| 14. Which of the following is not a financial market?

|  |  |  |
| --- | --- | --- |
|   | a.  | Bond market |
|   | b.  | A market in which small business owners buy and sell their companies |
|   | c.  | Stock market |
|   | d.  | All of these are financial markets |

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| --- | --- |
| *ANSWER:* | b |

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| 15. A \_\_\_\_ is licensed to trade securities on behalf of investors.

|  |  |  |
| --- | --- | --- |
|   | a.  | stockbroker |
|   | b.  | securities analyst |
|   | c.  | market maker |
|   | d.  | corporation |

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| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. A financial market is:

|  |  |  |
| --- | --- | --- |
|   | a.  | a place where investors can buy and sell securities. |
|   | b.  | the stock market. |
|   | c.  | regulated by well-defined rules and regulations. |
|   | d.  | All of the above |

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| *ANSWER:* | d |

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| 17. A company can raise money to purchase assets by:

|  |  |  |
| --- | --- | --- |
|   | a.  | borrowing money. |
|   | b.  | issuing stock. |
|   | c.  | using money earned. |
|   | d.  | Both a & b |
|   | e.  | All of the above |

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| *ANSWER:* | e |

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| 18. The \_\_\_\_ is the largest stock exchange in the world.

|  |  |  |
| --- | --- | --- |
|   | a.  | American Stock Exchange |
|   | b.  | Chicago Stock Exchange |
|   | c.  | New York Stock Exchange |
|   | d.  | Tokyo Stock Exchange |

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| --- | --- |
| *ANSWER:* | c |

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| 19. A collection of securities is called a:

|  |  |  |
| --- | --- | --- |
|   | a.  | basket. |
|   | b.  | conglomerate. |
|   | c.  | portfolio. |
|   | d.  | Any of the above |

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| --- | --- |
| *ANSWER:* | c |

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| 20. Companies finance the purchase of assets through:

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| --- | --- | --- |
|   | a.  | debt financing, the sale of bonds. |
|   | b.  | equity financing, the sale of stock. |
|   | c.  | lease financing. |
|   | d.  | Only a. and b. above |
|   | e.  | All of the above |

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| *ANSWER:* | e |

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| 21. Historically, the field of finance was limited to:

|  |  |  |
| --- | --- | --- |
|   | a.  | accounting. |
|   | b.  | raising money. |
|   | c.  | activities of investors. |
|   | d.  | financial management. |

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| --- | --- |
| *ANSWER:* | b |

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| 22. Which of the following is an example of financing?

|  |  |  |
| --- | --- | --- |
|   | a.  | An investor purchases stocks and bonds |
|   | b.  | A company issues stock to raise money to purchase assets |
|   | c.  | An investors buys shares in a mutual fund to earn a return |
|   | d.  | An investor sells stocks and bonds |

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| --- | --- |
| *ANSWER:* | b |

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| 23. The functions of the finance department include all of the following activities except:

|  |  |  |
| --- | --- | --- |
|   | a.  | paying employees and vendors. |
|   | b.  | selling products to customers. |
|   | c.  | receiving payments from customers. |
|   | d.  | selling stock. |
|   | e.  | paying dividends. |

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| --- | --- |
| *ANSWER:* | b |

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| 24. Responsibilities of the finance department include, but are not limited to:

|  |  |  |
| --- | --- | --- |
|   | a.  | managing the company's money. |
|   | b.  | providing financial input to general business decisions. |
|   | c.  | looking over everyone else's shoulder to make sure they're using money effectively. |
|   | d.  | All of the above |

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| *ANSWER:* | d |

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| 25. The executive in charge of the finance department is the company's:

|  |  |  |
| --- | --- | --- |
|   | a.  | CEO. |
|   | b.  | COO. |
|   | c.  | CFO. |
|   | d.  | CIO. |

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| --- | --- |
| *ANSWER:* | c |

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| 26. Raising money and handling financial relationships with outsiders is a function of the:

|  |  |  |
| --- | --- | --- |
|   | a.  | controller. |
|   | b.  | treasury department. |
|   | c.  | accounting department. |
|   | d.  | All of the above |

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| --- | --- |
| *ANSWER:* | b |

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| 27. The price that investors are willing to pay for a firm's securities can best be described by which of the following statements?

|  |  |  |
| --- | --- | --- |
|   | a.  | If a company is performing poorly, investors will not buy that company's securities. |
|   | b.  | If a company is performing well, investors will buy the company's stock at almost any price because the price of the stock should increase. |
|   | c.  | Since the value of a company's securities depends largely on future cash flows, investors will consider the company's performance in estimating the future cash flows that will come from owning its securities. |
|   | d.  | Since risk is difficult to assess for any particular company, investors don't usually consider risk when deciding how much to pay for a company's securities. |

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| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. The finance function and the accounting function look at the sale of product to a customer on credit in different ways. Which of the following best describes that difference?

|  |  |  |
| --- | --- | --- |
|   | a.  | Accounting views the sale as a completed transaction to be recorded as revenue while finance views it as incomplete until the cash is received. |
|   | b.  | Finance views the sale as a completed transaction to be recorded as revenue while accounting views it as incomplete until the cash is received. |
|   | c.  | Accounting is more interested in the cash inflows and outflows than finance. |
|   | d.  | Finance is more interested in reporting the appropriate transactions in the proper time period than accounting. |

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| *ANSWER:* | a |

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| 29. Accounting is:

|  |  |  |
| --- | --- | --- |
|   | a.  | focused on cash flow. |
|   | b.  | the language of finance. |
|   | c.  | an outgrowth of economics. |
|   | d.  | Both a & b |

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| --- | --- |
| *ANSWER:* | b |

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| 30. If a company buys a machine for $10,000 cash and plans to depreciate it at $1,000 per year for 10 years, the two most important aspects of this transaction to the finance manager (as opposed to the accountant) are:

|  |  |  |
| --- | --- | --- |
|   | a.  | the purchase of the machine and the tax savings from the depreciation expense. |
|   | b.  | recording the purchase of the machine and its depreciation expense. |
|   | c.  | calculating depreciation expense and its compliance with the tax code. |
|   | d.  | the impact on factory capacity due to the equipment purchase. |

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| *ANSWER:* | a |

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| 31. Finance has its theoretical roots in \_\_\_\_, but requires a practical understanding of \_\_\_\_.

|  |  |  |
| --- | --- | --- |
|   | a.  | accounting, economics |
|   | b.  | accounting, the stock market |
|   | c.  | mathematics, accounting |
|   | d.  | economics, accounting |

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| --- | --- |
| *ANSWER:* | d |

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| 32. Financial theory stems primarily from:

|  |  |  |
| --- | --- | --- |
|   | a.  | mathematics. |
|   | b.  | finance. |
|   | c.  | economics. |
|   | d.  | accounting. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 33. Which of the following apply to an S-type corporation?

|  |  |  |
| --- | --- | --- |
|   | a.  | Double taxation of earnings |
|   | b.  | Taxation similar to a partnership |
|   | c.  | Can be owned by another corporation |
|   | d.  | None of the above |

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| --- | --- |
| *ANSWER:* | b |

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| 34. The primary advantage of the proprietor form of business over the corporate form is**:**

|  |  |  |
| --- | --- | --- |
|   | a.  | ease of raising capital (money.) |
|   | b.  | avoidance of double taxation. |
|   | c.  | unlimited life. |
|   | d.  | limited liability. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 35. All of the following are characteristics of proprietorships except:

|  |  |  |
| --- | --- | --- |
|   | a.  | ease of formation. |
|   | b.  | income treated as part of the sole proprietor's income for tax purposes. |
|   | c.  | ease of raising additional money for expansion. |
|   | d.  | unlimited life. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 36. The principal financial advantage of the corporate form of organization is:

|  |  |  |
| --- | --- | --- |
|   | a.  | ease of transferability of ownership. |
|   | b.  | accumulation of earnings for retention in the business. |
|   | c.  | limited liability. |
|   | d.  | ease of raising money through selling stock. |

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| --- | --- |
| *ANSWER:* | d |

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| 37. Assume that pre-tax profit of $50,000 has been earned by a business, and the owner/proprietor wants to withdraw all of the after-tax profit for personal use. Assume the tax rate for a C corporation is 34%, while the rate for a person is 27%. The after-tax earnings available under the corporate and proprietorship forms are:

|  |  |  |
| --- | --- | --- |
|   | a.  | for a corporation, $33,000; for a proprietorship, $36,500. |
|   | b.  | for a corporation, $23,760; for a proprietorship, $36,500. |
|   | c.  | for either a corporation or a proprietorship, $36,500. |
|   | d.  | for either a corporation or a proprietorship, $23,760. |

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| --- | --- |
| *ANSWER:* | b |

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| 38. Stockholders own corporations. Which of the following is inconsistent with that role:

|  |  |  |
| --- | --- | --- |
|   | a.  | attend annual shareholder meetings as a forum for voicing discontent. |
|   | b.  | receive annual reports that detail the past, present, and future direction of the firm. |
|   | c.  | share in the firm's profits. |
|   | d.  | receive interest on the amount loaned to the company. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 39. All of the following are characteristics of C Corporations except:

|  |  |  |
| --- | --- | --- |
|   | a.  | unlimited life. |
|   | b.  | limited liability for the stockholders. |
|   | c.  | avoidance of double taxation. |
|   | d.  | ease of raising additional capital for expansion. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. A proprietor who operates his/her own business can incorporate and become the only shareholder. This action might be taken to provide the owner with the limited liability of the corporate form. Which of the following best describes the impact of incorporation in this situation on the limited liability issue?

|  |  |  |
| --- | --- | --- |
|   | a.  | The owner has achieved the full protection of limited liability. |
|   | b.  | The owner can protect his/her personal assets unless fraud is involved in the conduct of the business. |
|   | c.  | The owner has achieved the full protection of limited liability except for default on borrowed funds. |
|   | d.  | The owner has in reality achieved very little in the way of limited liability protection. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 41. Companies generally create liabilities that exceed assets by:

|  |  |  |
| --- | --- | --- |
|   | a.  | borrowing money they cannot repay. |
|   | b.  | issuing additional stock. |
|   | c.  | losing a lawsuit. |
|   | d.  | a and c |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 42. The primary financial goal of a corporation is to maximize:

|  |  |  |
| --- | --- | --- |
|   | a.  | shareholders wealth. |
|   | b.  | earnings per share. |
|   | c.  | stock price. |
|   | d.  | Both a & c |
|   | e.  | All of the above |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 43. The maximization of shareholders wealth is measured by increases in:

|  |  |  |
| --- | --- | --- |
|   | a.  | profits. |
|   | b.  | earnings. |
|   | c.  | stock price. |
|   | d.  | sales. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 44. Which of the following is a stakeholder of a corporation?

|  |  |  |
| --- | --- | --- |
|   | a.  | The stock exchange where the corporation is listed |
|   | b.  | The currency exchange for foreign corporations |
|   | c.  | Competitors of the corporation |
|   | d.  | Suppliers of the corporation |

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| --- | --- |
| *ANSWER:* | d |

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| 45. Which of the following is (are) effective in controlling the agency problem?

|  |  |  |
| --- | --- | --- |
|   | a.  | Tie a large part of managements' compensation to company profit |
|   | b.  | Offer numerous perquisites |
|   | c.  | Employ auditors to periodically review company books |
|   | d.  | Both a and c |

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| --- | --- |
| *ANSWER:* | d |

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| 46. The agency problem exists primarily in companies of which:

|  |  |  |
| --- | --- | --- |
|   | a.  | ownership is widely dispersed. |
|   | b.  | common stock is closely held. |
|   | c.  | management has stock ownership. |
|   | d.  | Both a & c |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| 47. \_\_\_\_ generally involves the use of power by one group to gain a benefit at the expense of others.

|  |  |  |
| --- | --- | --- |
|   | a.  | Unethical behavior |
|   | b.  | Shareholder wealth maximization |
|   | c.  | Limited liability |
|   | d.  | A personal guarantee |

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| --- | --- |
| *ANSWER:* | a |

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| 48. Lenders protect themselves from conflicts of interest with shareholders through:

|  |  |  |
| --- | --- | --- |
|   | a.  | cooperative agreements signed by shareholders and lenders. |
|   | b.  | limiting the amount of funds bondholders lend. |
|   | c.  | loan agreements that prohibit companies from undertaking excessive risk. |
|   | d.  | offering lenders a share of profits. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 49. \_\_\_\_ is a growing practice in which people concern themselves with the activities of the issuing business.

|  |  |  |
| --- | --- | --- |
|   | a.  | Agency control |
|   | b.  | Morality analysis |
|   | c.  | Socially responsible investing |
|   | d.  | Wealth maximization |

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| --- | --- |
| *ANSWER:* | c |

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| 50. Which is not a financial asset?

|  |  |  |
| --- | --- | --- |
|   | a.  | Stock |
|   | b.  | Bond |
|   | c.  | Shares in a mutual fund |
|   | d.  | Savings account |

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| --- | --- |
| *ANSWER:* | d |

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| 51. If a company uses a bond issue to raise capital, the financing is an example of:

|  |  |  |
| --- | --- | --- |
|   | a.  | equity financing. |
|   | b.  | debt financing. |
|   | c.  | lease financing. |
|   | d.  | debt and equity financing. |

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| --- | --- |
| *ANSWER:* | b |

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| 52. Which statement is true?

|  |  |  |
| --- | --- | --- |
|   | a.  | The finance department has an oversight responsibility for the effective management of the money other departments spend. |
|   | b.  | The Vice President of Finance is usually a position very different from that of a CFO. |
|   | c.  | The finance department will oversee the selling of stock, but not the paying of dividends. |
|   | d.  | Individual departments determine the feasibility of projects, while the finance department is only concerned with the funding of the project. |

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| *ANSWER:* | a |

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| 53. Which entity is most directly responsible for the accounting within the firm?

|  |  |  |
| --- | --- | --- |
|   | a.  | Treasurer |
|   | b.  | Controller |
|   | c.  | CFO |
|   | d.  | CEO |

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| --- | --- |
| *ANSWER:* | b |

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| 54. Which is not a legitimate form of business organization?

|  |  |  |
| --- | --- | --- |
|   | a.  | Partnership |
|   | b.  | C-type corporation |
|   | c.  | T-type corporation |
|   | d.  | LLC |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 55. Large corporations tend to be:

|  |  |  |
| --- | --- | --- |
|   | a.  | partnerships. |
|   | b.  | T-type corporations. |
|   | c.  | C-type corporations. |
|   | d.  | sole proprietorships. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 56. What does it mean for a new business loan to be collateralized?

|  |  |  |
| --- | --- | --- |
|   | a.  | Should the business fail, the loan is simply not repaid. |
|   | b.  | The lender may sell a specific asset to recover the loan. |
|   | c.  | The borrower does not pay interest on the loan. |
|   | d.  | The borrower only pays interest when the entire loan is due. |

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| *ANSWER:* | b |

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| 57. What is double taxation?

|  |  |  |
| --- | --- | --- |
|   | a.  | It is when two separate tax authorities tax the same corporation. |
|   | b.  | It is a situation that only affects sole proprietorships. |
|   | c.  | It occurs when the business owner pays himself or herself a salary. |
|   | d.  | It occurs when earnings are taxed once at the corporate level and then taxed a second time as personal income. |

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| *ANSWER:* | d |

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| 58. Suppose pre-tax earnings are $100,000.00 and the corporate tax rate is 42%. How much additional money can a business owner receive by declaring the earnings as personal income which is taxed at a rate of 31%?

|  |  |  |
| --- | --- | --- |
|   | a.  | $11,000.00 |
|   | b.  | $42,000.00 |
|   | c.  | $31,000.00 |
|   | d.  | $3,200.00 |

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| *ANSWER:* | a |

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| 59. The term "buying a bond" is misleading because:

|  |  |  |
| --- | --- | --- |
|   | a.  | bonds are not available to the general public. |
|   | b.  | a bond can only be bought with assets other than money. |
|   | c.  | bonds represent a debt relationship so a bond buyer is actually lending money. |
|   | d.  | bonds are not owned, only held in trust for a buyer's beneficiaries. |

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| *ANSWER:* | c |

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| 60. The following is true of financial assets:

|  |  |  |
| --- | --- | --- |
|   | a.  | companies issue financial assets in order to raise capital (money). |
|   | b.  | investors purchase financial assets in order to earn a return on funds they don't    currently need. |
|   | c.  | they differ from real assets in that they are pieces of paper as opposed to physical objects. |
|   | d.  | All of these are true. |

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| *ANSWER:* | d |

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| 61. To “finance” an asset is:

|  |  |  |
| --- | --- | --- |
|   | a.  | to lend money to buyers so they can improve their portfolios. |
|   | b.  | to sell the asset for more than market value. |
|   | c.  | to raise money in order to acquire the asset. |
|   | d.  | All of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 62. The following position(s) and/or department(s) is/are in the finance department under the CFO:

|  |  |  |
| --- | --- | --- |
|   | a.  | Treasurer |
|   | b.  | Controller |
|   | c.  | Accounting department |
|   | d.  | All of these are correct. |

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| --- | --- |
| *ANSWER:* | d |

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| 63. Limited liability may not be an advantage of the corporate form for owner-operated small businesses because:

|  |  |  |
| --- | --- | --- |
|   | a.  | a negligent worker can escape liability for his own acts. |
|   | b.  | lenders usually demand personal guarantees from the owners of small businesses. |
|   | c.  | stockholders participate in the business itself. |
|   | d.  | All of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 64. Security analysis may be conducted by:

|  |  |  |
| --- | --- | --- |
|   | a.  | only investors themselves. |
|   | b.  | only professional analysts. |
|   | c.  | investors and professional analysts. |
|   | d.  | None of these are correct. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 65. Assets pledged to guarantee a loan are:

|  |  |  |
| --- | --- | --- |
|   | a.  | factored. |
|   | b.  | collateral. |
|   | c.  | hypothecated. |
|   | d.  | assumed. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 66. Financial assets are valuable because they give owners rights to future cash flows.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 67. Firms typically invest in real assets such as plant and equipment because of the services they provide.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 68. Investing in stock represents partial ownership of a corporation and gives the investor the potential for future cash flows from earnings distribution and stock price appreciation if the business prospers.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

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| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 69. ​C-corporations issue real assets, such as debt, in order to raise money.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 70. ​Because it historically provides a positive return, common stock is typically classified as a real asset.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 71. Investments in financial assets can be made directly by buying shares in a mutual fund.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 72. Another name for a financial asset like a stock or a bond is a security.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 73. A stockbroker is licensed to trade securities on behalf of investors.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 74. The stock market is really the entire network of investors, brokers, and exchanges all connected together.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 75. The essence of finance is the process of raising capital (money), exclusively through the sale of bonds.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 76. A portfolio is a collection of securities.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 77. Responsibilities of the chief financial officer are similar to the responsibilities of the corporate controller when associated with the financial decision making process.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 78. The Treasurer is usually the executive in charge of the finance department in a large corporation.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 79. The CFO is the person primarily responsible for judging the financial viability of projects proposed by other executives.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 80. In firms of moderate size or larger, the finance department is typically relieved of the "watchdog" responsibility of monitoring the efficient use of money by other departments.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 81. Corporate controllers are responsible for the accounting functions in most large corporations.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. The treasurer is in charge of accounting while the controller supervises most other financial functions.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. The treasurer is the person primarily responsible for raising money, analyzing results, and handling relationships with outside investors.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 84. The sole driving force behind investor expectations about returns is always the company's potential sales.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 85. Shareholders focus solely on the firm's expected profit to assign a price to its stock.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 86. The value the market assigns to a firm's securities is a function of the expected cash flows that come from owning the securities and the risk of actually receiving those cash flows.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 87. Investors buy securities for the future cash flows that come from owning them.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 88. ​Accounting and finance have consistent orientations about financial results.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 89. When valuing a firm's stocks and bonds, finance professionals place equal significance on accounting results and cash flows.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 90. ​Financial theory has grown out of economics.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 91. Financial theory was originally a branch of economics.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 92. A major disadvantage of the proprietorship form is the difficulty of raising money.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 93. The proprietorship form of organization gives the business owner the protection of limited liability.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 94. Assets pledged to guarantee a loan are collateral.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 95. Double taxation of earnings is the primary financial disadvantage of the corporate form of business organization.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 96. Companies sometimes create liabilities that exceed their assets when they lose a lawsuit.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 97. The traditional C-corporation, in which the firm's income is taxed independently of that of its owners, is overwhelmingly preferred by small companies.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 98. The S-corporation was designed to address the concerns of shareholders of large, publicly traded companies that wanted to avoid the double taxation of their income.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 99. S-type corporations have difficulty in accumulating earnings because their profits are subject to double taxation.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 100. Ease of raising money by selling stock is the most significant financial advantage of the sole proprietorship form.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 101. A decision that increases immediate net profit is always consistent with maximizing shareholder wealth.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 102. The primary financial goal of the corporation is to maximize profits.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| 103. All of the following are stakeholders in a company - Stockholders, Customers, Creditors, Employees, Management, Suppliers and the Local Community.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 104. ​Conflicts of interest arise when managers act for their own personal benefit rather than for the benefit of shareholders.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 105. The agency problem is generally the most prevalent in companies where ownership is held by only a few people.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 106. ​Ethical investors buy the securities of firms that behave according to accepted ethical and moral standards.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| 107. The agency problem can seriously restrain the economic success of a company. What avenues are available to shareholders to bring their goals and those of management into alignment?

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| *ANSWER:* | The best method to align the goals of managers and stockholders is to tie management's compensation to profitability and/or stock price. This incentivizes managers to take actions that simultaneously benefit themselves and stockholders. |

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| --- | --- | --- |
| 108. Should investors be concerned about the ethics of the firms in which they invest? Why or why not? If most of investors worry about it, how will that affect corporate behavior?

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| --- | --- |
| *ANSWER:* | Should is a subjective term. Students will be divided on the issue. If most investors did concern themselves with the ethics of the companies in which they invest, it would incentivize managers to act ethically. Acting unethically would drive investors away from the stock pushing its price down. |

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| --- | --- | --- |
| 109. How is taxation different in the corporate and proprietorship forms of business?  Explain double taxation.

|  |  |
| --- | --- |
| *ANSWER:* | In a proprietorship profit is taxed as personal income to the business owner. Hence, the business’s profits are taxed only once, and that tax is at personal income tax rates.A corporation is a separate legal entity and is liable to corporate tax on whatever it earns. After deducting the corporate tax, whatever is left is distributed among shareholders as dividend. This also holds for the entrepreneur who owns the business as she doesn’t own its earnings directly, the corporation owns them. The dividend is a taxable income to any individual. Hence, the entrepreneur will pay individual taxes on the after (corporate) tax earnings of the company. In other words, the profits of the business will be taxed twice, once at corporate rates and once at individual rates, before the entrepreneur gets to spend any of the business’s earnings. |

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| 110. Can a firm go out of business while making an accounting profit. Think about a company that buys a lot of inventory, starts a factory running and then sells most of the product (at a price far above cost) to a customer who is slow in paying. Exactly why may the company fail?

|  |  |
| --- | --- |
| *ANSWER:* | Yes. Accounting profit is recognized when a sale is made even though the money is uncollected. If a substantial number of customers never pay, the firm will not have the cash to pay for its inventory or to pay its employees. If that happens vendors will sue and employees will leave forcing the firm out of business. (See the box "Going Broke Profitably" at the beginning of Chapter 15 on working capital management for a detailed description of the phenomenon.) |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Match the following:*

|  |  |
| --- | --- |
| a.  | Its income is taxed directly by the federal government |
| b.  | A proprietorship with several owners |
| c.  | Its income is taxed at the individual level |
| d.  | The owner has unlimited personal liability |

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|  |  |  |
| --- | --- | --- |
| 111. Proprietorship

|  |  |
| --- | --- |
| *ANSWER:* | d |

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|  |  |  |
| --- | --- | --- |
| 112. Partnership

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 113. C Corporations

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 114. S Corporations

|  |  |
| --- | --- |
| *ANSWER:* | c |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 115. ​Today’s financial managers are simply told how much money their companies need to raise each year.  It is their duty to secure that financing. They have little involvement in decisions about how much money is needed and why...

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| 116. ​Investors make decisions to purchase the stocks and bonds of corporations based on:

|  |  |  |
| --- | --- | --- |
|   | a.  | ​Expected future cash flows |
|   | b.  | ​The issuing company's marketing strategy |
|   | c.  | ​Risk |
|   | d.  | ​All of the above |
|   | e.  | ​A and C only |

|  |  |
| --- | --- |
| *ANSWER:* | e |

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| 117. ​Sole proprietorships, S-type corporations, and LLCs are similar in that they

|  |  |  |
| --- | --- | --- |
|   | a.  | ​can sell stock on a limited basis |
|   | b.  | ​limited liability |
|   | c.  | ​are taxed at personal tax rates |
|   | d.  | ​they are not similar at all |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 118. ​The original goal of pass-through taxation was to encourage entrepreneurship and promote job growth.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| 119. ​Ethical investing involves avoiding the securities of corporations that are involved in the sale or manufacture of products that are considered harmful or immoral.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 120. Stockbrokers need to have a very strong grasp of accounting in order to sell securities.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 121. ​The limited liability protection of the corporate form is unlikely to protect entrepreneurs who take an active role in the daily running of their businesses.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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| 122. ​The goal of management in finance is to

|  |  |  |
| --- | --- | --- |
|   | a.  | ​maximize profits in the short-run. |
|   | b.  | ​maximize shareholder wealth. |
|   | c.  | ​minimize short-run costs. |
|   | d.  | ​All of the above |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 123. A bond is considered a:​

|  |  |  |
| --- | --- | --- |
|   | a.  | ​real asset |
|   | b.  | ​fianncial asset |
|   | c.  | ​debt instrument |
|   | d.  | ​Both B & C |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 124. Which of the following is not true regarding stocks?​

|  |  |  |
| --- | --- | --- |
|   | a.  | ​The price is determined by expected future cash flows. |
|   | b.  | ​A stock is a financial asset. |
|   | c.  | ​Buying stocks means lending money to the firm. |
|   | d.  | ​Stockholders are owners of the firm. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 125. Which of the following is considered a financial security?​

|  |  |  |
| --- | --- | --- |
|   | a.  | ​Apple bond |
|   | b.  | ​Apple stock |
|   | c.  | ​U.S. government bond |
|   | d.  | ​All of the above |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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|  |  |  |  |  |  |  |  |  |
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| 126. ​Bondholders are rewarded by receiving interest and a share of the company's profits.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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| 127. A disadvantage for a proprietorship versus the corporate form is:​

|  |  |  |
| --- | --- | --- |
|   | a.  | ​All income is taxed at the proprietor's personal tax rate |
|   | b.  | ​A permit is needed to open. |
|   | c.  | ​Lack of limited liability |
|   | d.  | ​Difficulty in raising money |
|   | e.  | ​Both C & D |

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |