

6. In the past, the study of finance has included:

- A. operational efficiency.
- B. employee relationships.
- C. legal cases.
- D. mergers and acquisitions.

7. A financial manager's goal of maximizing current or short-term earnings may not be appropriate because:

- A. it considers the timing of the benefits.
- B. increased earnings may be accompanied by acceptably higher levels of risk.
- C. share ownership is widely dispersed.
- D. earnings are subjective; they can be defined in various ways such as accounting or economic earnings.

8. 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.

9. The partnership form of 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.

10. A corporation is not:

- A. owned by shareholders who enjoy the privilege of limited liability.
- B. easily divisible between owners.
- C. a separate legal entity with perpetual life.
- D. a separate legal entity with limited life.

11. Inflation:

- A. increases corporations' reliance on debt for capital expansion needs.
- B. creates larger asset values on the firm's historical balance sheet.
- C. makes it cheaper (in terms of interest costs) for firms to borrow money.
- D. creates stability for investors.

12. Which of the following securities is not included as part of the capital market?

- A. Common stock
- B. Commercial paper
- C. Government bonds
- D. Preferred stock

13. 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 shareholders.
- D. optimally increasing the long-term value of the firm is emphasized.

14. The largest Canadian corporations are mainly:

- A. widely held.
- B. family controlled.
- C. U.S. controlled.
- D. Japanese controlled.

15. 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. It is a long-run point of view which takes risk into account.

16. Increased international competition can be seen as a motivator to emphasize:

- A. asset diversification strategies.
- B. the risk side of the risk-return relationship.
- C. the return side of the risk-return relationship.
- D. invest in a new risky project.

17. Corporations can reduce portfolio risk by:

- A. narrowing their focus on one successful product.
- B. merging with companies in unrelated industries.
- C. repurchasing their own stock.
- D. selling their own stock.

18. The shift to the return side of the risk-return relationship has occurred because:

- A. narrow focus on production.
- B. stock splits.
- C. there has been a decrease in the use of advanced technology in the production process.
- D. there has been an increase in international competition.

19. 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. shown as revenue on the income statement.

20. Which of the following is (are) a result of high inflation?

- A. Loss from disposal of assets
- B. Over-valued liabilities
- C. Lower stock price
- D. Under-valued assets

21. A corporate restructuring can result in:

- A. increased revenue.
- B. buying of low-profit margin divisions.
- C. selling of high-profit margin divisions.
- D. reductions in the work force.

22. 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

23. 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.

24. As mergers, acquisitions, and restructurings 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.
25. 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 dealers, and others buy common stock in companies represented by their firms
  - D. stock transactions occur with reduced brokerage fees.
26. 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 shareholders.
27. The 1990 Nobel Prize in economics was given to three finance professors. They are:
- A. Harry Markowitz, Merton Miller, William Sharpe
  - B. Harry Markowitz, Franco Modigliani, Paul Samuelson
  - C. Merton Miller, Franco Modigliani, Robert Merton
  - D. William Sharpe, Richard Roll, Steve Ross
28. Future financial managers will need to understand:
- A. employment standards.
  - B. production engineering.
  - C. actuarial calculations.
  - D. international currency hedging strategies.
29. 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.

30. In the 1930s, financial practices didn't focus on:

- A. maintenance of liquidity.
- B. reorganization of financially distressed companies.
- C. the bankruptcy process.
- D. international exchange costs.

31. 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.

32. 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. Government bonds.

33. 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.

34. Companies that have higher risk than a competitor in the same industry will generally have:

- A. to pay a lower interest rate than its competitors.
- B. a higher relative stock price than its competitors.
- C. a lower cost of funds than its competitors.
- D. to pay a higher interest rate than its competitors.

35. The financial markets allocate capital to corporations by:

- A. reflecting expectations of the market participants in the corporation's share price.
- 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 dealers.