***Fundamentals of Corporate Finance, 10e* (Brealey)**

**Chapter 1 Goals and Governance of the Corporation**

1) The liability of sole proprietors is limited to the amount of their investment in the company.

Answer: FALSE

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Communication

Accessibility: Keyboard Navigation

2) General partners have limited personal liability for business debts in a limited partnership.

Answer: FALSE

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Communication

Accessibility: Keyboard Navigation

3) The separation of ownership and management is one distinctive feature of corporations.

Answer: TRUE

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

4) A major disadvantage of partnerships is that they have double taxation of profits.

Answer: FALSE

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Communication

Accessibility: Keyboard Navigation

5) Financial assets have value because they are claims on the firm's real assets and the cash that those assets will produce.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial management decisions

Learning Objective: 01-02 Distinguish between real and financial assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

6) Capital budgeting decisions are used to determine how to raise the cash necessary for investments.

Answer: FALSE

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

7) A successful investment is one that increases the value of the firm.

Answer: TRUE

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

8) Facebook's decision to spend $700 million to acquire Instagram is an investment decision.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial management decisions

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

9) Boards of directors are generally appointed by the firm's senior officers.

Answer: FALSE

Difficulty: 1 Easy

Topic: Management organization and roles

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

10) Financial analysts are involved in monitoring the risk associated with investment projects and financing decisions.

Answer: TRUE

Difficulty: 2 Medium

Topic: Management organization and roles

Learning Objective: 01-04 Describe the responsibilities of the CFO, treasurer; and controller.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

11) The primary goal of any company should be to maximize current period profits.

Answer: FALSE

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-05 Explain why maximizing market value is the natural financial goal of the corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

12) Maximizing profits is the same as maximizing the value of the firm.

Answer: FALSE

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-05 Explain why maximizing market value is the natural financial goal of the corporation.

Bloom's: Analyze

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

13) The Dodd-Frank financial reform law in 2010 granted shareholders a binding vote on executive compensation.

Answer: FALSE

Difficulty: 1 Easy

Topic: Ethics, governance, and regulation

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

14) Sole proprietorships face the same agency problems as those associated with corporations.

Answer: FALSE

Difficulty: 1 Easy

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

15) Real assets can be intangible assets.

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-02 Distinguish between real and financial assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

16) Making good investment and financing decisions is the chief task of the financial manager.

Answer: TRUE

Difficulty: 2 Medium

Topic: Management organization and roles

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

17) If a project's value is less than its required investment, then the project is financially attractive.

Answer: FALSE

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

18) GlaxoSmithKline's spending of $3.6 billion on research and development of new drugs is a capital budgeting decision but not a financing decision.

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

19) Deltas's issuance of a $1.0 billion bond is a financing decision.

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

20) An IOU ("I owe you") from your brother-in-law is a financial asset.

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-02 Distinguish between real and financial assets.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

21) The separation of ownership and management is one distinctive feature of both corporations and sole proprietors.

Answer: FALSE

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

22) Shareholders welcome higher short-term profits even when they damage long-term profits.

Answer: FALSE

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-05 Explain why maximizing market value is the natural financial goal of the corporation.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

23) A well-designed compensation package can help a firm achieve its goal of maximizing market value.

Answer: TRUE

Difficulty: 2 Medium

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Apply

AACSB: Ethics

Accessibility: Keyboard Navigation

24) While control of large public companies in the United States is exercised through the board of directors and pressure from the stock market, in many other countries the stock market is less important and control shifts to major stockholders, typically banks and other companies.

Answer: TRUE

Difficulty: 2 Medium

Topic: Management organization and roles

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Remember

AACSB: Diversity

Accessibility: Keyboard Navigation

25) Investors are responsible for deciding whether to reinvest in the firm's operations or take the profits as a distribution.

Answer: FALSE

Difficulty: 2 Medium

Topic: Management organization and roles

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

26) Established firms can create value by developing long-term relationships and maintaining a good reputation.

Answer: TRUE

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

27) Which one of these is a disadvantage of the corporate form of business?

A) Access to capital

B) Unlimited personal liability for owners

C) Limited firm life

D) Legal requirements

Answer: D

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

28) Which one of the following gives a corporation its permanence?

A) Multiple owners

B) Limited liability

C) Corporation taxation

D) Separation of ownership and control

Answer: D

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

29) In a partnership form of organization, income tax liability, if any, is incurred by:

A) the partnership itself.

B) the partners individually.

C) both the partnership and the partners.

D) neither the partnership nor the partners.

Answer: B

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

30) Which one of the following would correctly differentiate general partners from limited partners in a limited partnership?

A) General partners have more job experience.

B) General partners have an ownership interest.

C) General partners are subject to double taxation.

D) General partners have unlimited personal liability.

Answer: D

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

31) Which form of organization provides limited liability for the firm but yet allows the professionals working within that firm to be sued personally?

A) Limited liability partnership

B) Limited liability company

C) Sole proprietorship

D) Professional corporation

Answer: D

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

32) Which of the following organizations is *least* likely to use a professional corporation (PC) structure?

A) Accountants

B) Doctors

C) Lawyers

D) Manufacturers

Answer: D

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

33) Which of the following is *least* likely to be discussed in the articles of incorporation?

A) How the firm is to be financed

B) The purpose of the business

C) The price range of the shares of stock

D) How the board of directors is to be structured

Answer: C

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

34) When a corporation fails, the maximum that can be lost by an individual shareholder is:

A) the amount of their initial investment.

B) the amount of their share of the profits.

C) their proportionate share required to pay the corporation's debts.

D) the amount of their personal wealth.

Answer: A

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

35) Which of the following is a disadvantage to incorporating a business?

A) Easier access to financial markets

B) Limited liability

C) Becoming a permanent legal entity

D) Profits taxed at the corporate level and the shareholder level

Answer: D

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

36) Unlimited liability is faced by the owners of:

A) corporations.

B) partnerships and corporations.

C) sole proprietorships and general partnerships.

D) all forms of business organization.

Answer: C

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

37) Which one of these statements correctly applies to a limited partnership?

A) All partners share the daily management duties.

B) All partners enjoy limited personal liability.

C) General partners have unlimited personal liability.

D) Taxes are imposed at both the firm and the personal level on profits earned.

Answer: C

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

38) In the case of a limited liability partnership, \_\_\_\_\_\_\_\_ has/have limited liability.

A) only some of partners

B) only the managing partner

C) all of the partners

D) none of the partners

Answer: C

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

39) A board of directors is elected as a representative of the corporation's:

A) top management.

B) stakeholders.

C) shareholders.

D) customers.

Answer: C

Difficulty: 2 Medium

Topic: Management organization and roles

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

40) The legal "life" of a corporation is:

A) coincidental with that of its CEO.

B) equal to the life of its board of directors.

C) permanent, as long as shareholders don't change.

D) permanent, regardless of current ownership.

Answer: D

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

41) In which type of organizational structure is the agency problem least likely to exist?

A) Limited Liability Corporation

B) Partnership

C) Professional Corporation

D) Sole Proprietorship

Answer: D

Difficulty: 2 Medium

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

42) When the management of a business is conducted by individuals other than the owners, the business is most likely to be a:

A) corporation.

B) sole proprietorship.

C) partnership.

D) general partner.

Answer: A

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

43) "Double taxation" refers to:

A) all partners paying equal taxes on profits.

B) corporations paying taxes on both dividends and retained earnings.

C) paying taxes on profits at the corporate level and dividends at the personal level.

D) the fact that marginal tax rates are doubled for corporations.

Answer: C

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

44) A corporation is considered to be closely held when:

A) only a few shareholders exist.

B) the market value of the shares is stable.

C) it operates in a small geographic area.

D) management also serves as the board of directors.

Answer: A

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

45) Which of the following is NOT a requirement of the Sarbanes-Oxley Act of 2002?

A) The compensation committee must be appointed by an outside director

B) The CEO and CFO must sign off personally on corporate accounting results

C) The board of directors must meet in executive session

D) More board of directors members are independent

Answer: A

Difficulty: 2 Medium

Topic: Management organization and roles

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

46) Corporations are referred to as public companies when their:

A) shareholders have no tax liability.

B) shares are held by the federal or state government.

C) stock is publicly traded.

D) products or services are available to the public.

Answer: C

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

47) A common problem for closely held corporations is:

A) the lack of access to substantial amounts of capital.

B) the restriction that shareholders receive only one vote each.

C) the separation of ownership and management.

D) an abundance of agency problems.

Answer: A

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

48) Corporate managers are expected to make corporate decisions that are in the best interest of:

A) top corporate management.

B) the corporation's board of directors.

C) the corporation's shareholders.

D) all corporate employees.

Answer: C

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-05 Explain why maximizing market value is the natural financial goal of the corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

49) Which one of the following is a financial asset?

A) A corporate bond

B) A machine

C) A patent

D) A factory

Answer: A

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-02 Distinguish between real and financial assets.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

50) Which of the following statements best distinguishes the difference between real and financial assets?

A) Real assets have less value than financial assets.

B) Real assets are tangible; financial assets are not.

C) Financial assets represent claims to income that is generated by real assets.

D) Financial assets appreciate in value; real assets depreciate in value.

Answer: C

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-02 Distinguish between real and financial assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

51) Which one of the following is a real asset?

A) A patent

B) A personal IOU

C) A checking account balance

D) A share of stock

Answer: A

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-02 Distinguish between real and financial assets.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

52) Which one of these is *not* considered to be a security?

A) Shares of GE stock

B) A bond traded in the financial market

C) A mortgage loan issued and held by a bank

D) A convertible bond issued to the public

Answer: C

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-02 Distinguish between real and financial assets.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

53) Corporations that issue financial securities such as stock or debt obligations to the public do so primarily to:

A) increase sales.

B) become profitable.

C) increase their access to funds.

D) avoid double taxation of their profits.

Answer: C

Difficulty: 2 Medium

Topic: Forms of business organization

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

54) Which one of the following would be considered a capital budgeting decision?

A) Planning to issue common stock rather than issuing preferred stock

B) Deciding to expand into a new line of products, at a cost of $5 million

C) Repurchasing shares of common stock

D) Issuing debt in the form of long-term bonds

Answer: B

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

55) Which one of these is a capital budgeting decision?

A) Deciding between issuing stock or debt securities

B) Deciding whether or not the firm should go public

C) Deciding if the firm should repurchase some of its outstanding shares

D) Deciding whether to buy a new machine or repair the old machine

Answer: D

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

56) The best criterion for success in a capital budgeting decision would be to:

A) minimize the cost of the investment.

B) maximize the number of capital budgeting projects.

C) maximize the value added to the firm.

D) finance all capital budgeting projects with debt.

Answer: C

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

57) The overall goal of capital budgeting projects should be to:

A) decrease the firm's reliance on debt.

B) increase the firm's sales.

C) increase the firm's outstanding shares of stock.

D) increase the wealth of the firm's shareholders.

Answer: D

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

58) An example of a firm's financing decision would be:

A) acquiring a competitive firm.

B) determining how much to pay for a specific asset.

C) issuing 10-year versus 20-year bonds.

D) deciding whether or not to increase the price of its products.

Answer: C

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

59) Which of the following is a *capital budgeting* decision?

A) Should the firm borrow money from a bank or sell bonds?

B) Should the firm shut down an unprofitable factory?

C) Should the firm buy or lease a new machine that it is committed to acquiring?

D) Should the firm issue preferred stock or common stock?

Answer: B

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

60) Which of these duties are responsibilities of the corporate treasurer?

A) Financial statements and taxes

B) Cash management and tax reporting

C) Cash management and banking relationships

D) Raising capital and financial statements

Answer: C

Difficulty: 1 Easy

Topic: Management organization and roles

Learning Objective: 01-04 Describe the responsibilities of the CFO, treasurer; and controller.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

61) The term "capital structure" refers to:

A) the mix of long-term debt and equity financing.

B) the length of time needed to repay debt.

C) whether or not the firm invests in capital budgeting projects.

D) the types of assets a firm acquires.

Answer: A

Difficulty: 1 Easy

Topic: Capital structure

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

62) Firms can alter their capital structure by:

A) not accepting any new capital budgeting projects.

B) investing in intangible assets.

C) issuing stock to repay debt.

D) becoming a limited liability company.

Answer: C

Difficulty: 1 Easy

Topic: Capital structure

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

63) Which one of these statements is correct?

A) Financial managers have a fiduciary duty to stockholders.

B) Financial managers are concerned only with funds that flow to investors.

C) The chief financial officer generally reports directly to the corporate treasurer.

D) The corporate controller is primarily responsible for overseeing a firm's cash functions.

Answer: A

Difficulty: 2 Medium

Topic: Management organization and roles

Learning Objective: 01-04 Describe the responsibilities of the CFO, treasurer; and controller.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

64) A firm decides to pay for a small investment project through a $1 million increase in short-term bank loans. This is best described as an example of a(n):

A) financing decision.

B) investment decision.

C) capital budgeting decision.

D) capital expenditure decision.

Answer: A

Difficulty: 1 Easy

Topic: Financial management decisions

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

65) Which of the following is NOT a claim on the assets of a company?

A) Bond

B) Patent

C) Promissory Note

D) Stock

Answer: B

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-02 Distinguish between real and financial assets.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

66) The short-term decisions of financial managers are comprised of:

A) capital structure decisions only.

B) investment decisions only.

C) financing decisions only.

D) both investment and financing decisions.

Answer: D

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

67) A block holder is commonly defined as an investor who:

A) owns 5 percent or more of a firm's outstanding shares.

B) invests in more than one firm within the same industry.

C) is another corporation.

D) is also one of the firm's managers or directors.

Answer: A

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-03 Cite some of the advantages and disadvantages of organizing a business as a corporation.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

68) Which of the firm's financial managers is most likely to be involved with obtaining financing for the firm?

A) Treasurer

B) Controller

C) Chief Operating Officer

D) Board of directors

Answer: A

Difficulty: 1 Easy

Topic: Management organization and roles

Learning Objective: 01-04 Describe the responsibilities of the CFO, treasurer; and controller.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

69) In a large corporation, preparation of the firm's financial statements would most likely be conducted by the:

A) treasurer.

B) controller.

C) chief financial officer.

D) financial manager.

Answer: B

Difficulty: 1 Easy

Topic: Management organization and roles

Learning Objective: 01-04 Describe the responsibilities of the CFO, treasurer; and controller.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

70) In a firm having both a treasurer and a controller, which of the following would most likely be handled by the controller?

A) Internal auditing

B) Credit management

C) Banking relationships

D) Insurance

Answer: A

Difficulty: 2 Medium

Topic: Management organization and roles

Learning Objective: 01-04 Describe the responsibilities of the CFO, treasurer; and controller.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

71) Which one of the following statements more accurately describes the controller than the treasurer?

A) Reports directly to the chief executive officer

B) Monitors capital expenditures to make sure that they are not misappropriated

C) Responsible for investing the firm's spare cash

D) Responsible for arranging any issue of common stock

Answer: B

Difficulty: 2 Medium

Topic: Management organization and roles

Learning Objective: 01-04 Describe the responsibilities of the CFO, treasurer; and controller.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

72) A chief financial officer would typically:

A) report to the treasurer, but supervise the controller.

B) report to the controller, but supervise the treasurer.

C) report to both the treasurer and controller.

D) supervise both the treasurer and controller.

Answer: D

Difficulty: 1 Easy

Topic: Management organization and roles

Learning Objective: 01-04 Describe the responsibilities of the CFO, treasurer; and controller.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

73) Which one of these determines the minimum acceptable rate of return on a capital investment?

A) The alternative investment opportunities available to investors

B) The profit margin of the existing firm

C) The rate of return on the firm's outstanding shares

D) The rate of return on risk-free debt securities

Answer: A

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

74) A financial analyst in a corporation may be involved with all of the following *EXCEPT:*

A) analyzing a new investment project.

B) monitoring risk.

C) managing investment of the company's cash.

D) purchasing the firm's plant and equipment.

Answer: D

Difficulty: 1 Easy

Topic: Management organization and roles

Learning Objective: 01-04 Describe the responsibilities of the CFO, treasurer; and controller.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

75) Investment banks like Morgan Stanley or Goldman Sachs:

A) collect deposits and relend the cash to corporations and individuals.

B) help companies sell their securities to investors.

C) design and sell insurance policies for businesses.

D) lend to corporations and investors in commercial real estate.

Answer: B

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Learning Objective: 01-04 Describe the responsibilities of the CFO, treasurer; and controller.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

76) The primary goal of corporate management should be to:

A) maximize the number of shareholders.

B) maximize the firm's profits.

C) minimize the firm's costs.

D) maximize the shareholders' wealth.

Answer: D

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-05 Explain why maximizing market value is the natural financial goal of the corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

77) A corporate board of directors should provide support for the top management team:

A) under all circumstances.

B) in all decisions related to cash dividends.

C) only when the board approves of management's actions.

D) if shareholders are pleased with the firm's performance.

Answer: C

Difficulty: 2 Medium

Topic: Management organization and roles

Learning Objective: 01-07 Explain why unethical behavior does not maximize market value.

Bloom's: Apply

AACSB: Ethics

Accessibility: Keyboard Navigation

78) Which of the following appears to be the most appropriate goal for corporate management?

A) Maximizing market value of the company's shares

B) Maximizing the company's market share

C) Maximizing the current profits of the company

D) Minimizing the company's liabilities

Answer: A

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-05 Explain why maximizing market value is the natural financial goal of the corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

79) A firm with spare cash

A) should always reinvest it in new equipment.

B) should pay it out to shareholders unless the firm can earn a higher rate of return on the cash than the shareholders can earn by investing in the capital market.

C) should invest it in the safest projects available.

D) Should always invest it in U.S. equities.

Answer: B

Difficulty: 3 Hard

Topic: Goal of financial management

Learning Objective: 01-05 Explain why maximizing market value is the natural financial goal of the corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

80) Financial managers should only accept investment projects that:

A) increase the current profits of the firm.

B) can increase the firm's market share.

C) earn a higher rate of return than the firm currently earns on its existing projects.

D) earn a higher rate of return than shareholders can get by investing on their own.

Answer: D

Difficulty: 3 Hard

Topic: Goal of financial management

Learning Objective: 01-05 Explain why maximizing market value is the natural financial goal of the corporation.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

81) Agency problems can *least* be controlled by:

A) establishing good internal controls and procedures.

B) designing compensation packages that align manager's goals with those of the shareholders.

C) good systems of corporate governance.

D) electing senior managers to the board of directors.

Answer: D

Difficulty: 2 Medium

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

82) Which one of these best defines the objective of a well-functioning financial market?

A) Establishing accurate security prices

B) Creating higher security prices

C) Eliminating short-selling profits

D) Increasing shareholder value by any means possible

Answer: A

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

83) Corporate raiders will be looked upon most favorably if they:

A) divide up large profitable entities.

B) take actions that increase current shareholder wealth.

C) create value for themselves through their actions.

D) change the capital structure of a firm by increasing its debt.

Answer: B

Difficulty: 3 Hard

Topic: Goal of financial management

Learning Objective: 01-07 Explain why unethical behavior does not maximize market value.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

84) Ethical decision making by management has a payoff for shareholders in terms of:

A) improved capital structure.

B) enhanced firm reputation value.

C) increased managerial benefits.

D) higher current dividend payments.

Answer: B

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-07 Explain why unethical behavior does not maximize market value.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

85) Ethical decision making in business:

A) reduces the firm's profits.

B) requires adherence to implied rules as well as written rules.

C) is not in the best interests of shareholders.

D) is less important than good capital budgeting decisions.

Answer: B

Difficulty: 3 Hard

Topic: Ethics, governance, and regulation

Learning Objective: 01-07 Explain why unethical behavior does not maximize market value.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

86) A corporate director:

A) is selected by and can be removed by management.

B) can be voted out of power by the shareholders.

C) has a lifetime appointment to the board.

D) is selected by a vote of all corporate stakeholders.

Answer: B

Difficulty: 2 Medium

Topic: Management organization and roles

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Remember

AACSB: Communication

Accessibility: Keyboard Navigation

87) In which of the following organizations would agency problems be *least* likely to occur?

A) A sole proprietorship

B) A partnership

C) A corporation

D) A closely held corporation

Answer: A

Difficulty: 1 Easy

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

88) Sole proprietorships resolve the issue of agency problems primarily by:

A) avoiding excessive expense accounts.

B) discharging those who violate the rules.

C) allowing owners to share the cost of their actions with others.

D) forcing owners to bear the full cost of their actions.

Answer: D

Difficulty: 2 Medium

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

89) Which one of the following can best be characterized as an agency problem?

A) differing opinions among directors as to the merits of paying a higher dividend.

B) differing incentives between managers and owners.

C) persistently late delivery times by a major supplier.

D) Geological problems in the company's new gold mine.

Answer: B

Difficulty: 2 Medium

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Communication

Accessibility: Keyboard Navigation

90) Which of the following is *least* likely to represent an agency problem?

A) Lavish spending on expense accounts

B) Plush remodelling of the executive suite

C) Excessive avoidance of taxes

D) Executive incentive compensation plans

Answer: D

Difficulty: 3 Hard

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Apply

AACSB: Ethics

Accessibility: Keyboard Navigation

91) When managers' compensation plans are tied in a meaningful manner to the value of the firm, agency problems:

A) can be reduced.

B) will be created.

C) are shifted to other stakeholders.

D) are eliminated entirely from the firm.

Answer: A

Difficulty: 2 Medium

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

92) A firm's reputation:

A) has no value.

B) is an important firm asset.

C) is irrelevant to shareholders.

D) can be easily restored once damaged.

Answer: B

Difficulty: 2 Medium

Topic: Goal of financial management

Learning Objective: 01-07 Explain why unethical behavior does not maximize market value.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

93) Which of the following groups is *least* likely to be considered a stakeholder of the firm?

A) Government

B) Customers

C) Competitors

D) Employees

Answer: C

Difficulty: 1 Easy

Topic: Forms of business organization

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

94) A manager's compensation plan that offers financial incentives for increases in quarterly profitability may create agency problems in that:

A) the managers are not motivated by personal gain.

B) the board of directors may claim the credit.

C) short-term, not long-term profits become the focus.

D) investors desire stable profits.

Answer: C

Difficulty: 3 Hard

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

95) One continuing problem with managerial incentive compensation plans is that:

A) the plans increase agency problems.

B) managers prefer guaranteed salaries.

C) their effectiveness is difficult to evaluate.

D) the plans do not reward shareholders.

Answer: C

Difficulty: 2 Medium

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

96) Which one of the following forms of compensation is most apt to align the interests of managers and shareholders?

A) A fixed salary

B) A salary that is linked to current company profits

C) A salary that is paid partly in the form of the company's shares

D) A salary that is linked to the company's market share

Answer: C

Difficulty: 2 Medium

Topic: Agency costs and problems

Learning Objective: 01-06 Understand what is meant by "agency problems" and cite some of the ways that corporate governance helps mitigate agency problems.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

97) Which of the following is a real asset?

A) A patent

B) A share of stock issued by Bank of New York

C) An IOU ("I owe you") from your brother-in-law

D) A mortgage loan taken out to help pay for a new home

Answer: A

Difficulty: 2 Medium

Topic: Financial management decisions

Learning Objective: 01-02 Distinguish between real and financial assets.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

98) Which one of these statements is correct?

A) A dollar received next year has the same value as a dollar received today.

B) Risky cash flows are more valuable than certain cash flows.

C) Smart investment decisions create more value than smart financing decisions.

D) Corporate governance is irrelevant.

Answer: C

Difficulty: 2 Medium

Topic: Introduction to corporate finance

Learning Objective: 01-01 Give examples of the investment and financing decisions that financial managers make.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

99) Short selling involves selling a security:

A) you do not own.

B) that you have owned for less than one year.

C) at a price below current market value.

D) for less than you originally paid to purchase it.

Answer: A

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Learning Objective: 01-07 Explain why unethical behavior does not maximize market value.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation