Chapter 01
Introduction to Corporate Finance

True / False Questions

1. In capital budgeting, the financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

2. The size, timing and risk of cash flows are important when evaluating a capital budgeting decision.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

3. A capital expenditure project becomes desirable when the project is worth more to the firm than the cost to acquire it.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

4. A capital expenditure project becomes desirable when the value of the cash flow generated by the project exceeds the project's cost.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

5. Capital structure determines the least expensive sources of funds for the firm to borrow.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

6. Capital structure determines how much debt the firm should have in relation to its level of equity.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

7. Capital structure determines the level of current assets that is required to maintain the firm's operational level.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

8. Capital structure determines how much risk is associated with the future cash flows of a project.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

9. Determining when a supplier should be paid is a capital structure decision.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

10. Establishing the accounts receivable policies is a capital structure decision.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

11. Determining the amount of money to borrow to finance a 10-year project is a capital structure decision.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

12. Deciding if a new project should be accepted is a working capital decision.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

13. When evaluating a project in which a firm might invest, the size but not the timing of the cash flows is important.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

14. Working capital management addresses the firm's appropriate level of inventory.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

15. Common stockholders or limited partners can lose, at most, what they have invested in a firm.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership
Topic: 01-08 Corporation

16. Partnership income is treated as personal income of the partners.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

17. A limited partner can lose his or her investment in the partnership.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

18. Maximization of the current earnings of the firm is the main goal of the financial manager.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 The goal of financial management.
Topic: 01-13 The Goal of Financial Management

19. The primary goal of a financial manager should be to maximize the value of shares issued to new investors in the corporation.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 The goal of financial management.
Topic: 01-13 The Goal of Financial Management

20. The primary goal of financial management is to minimize the corporate tax liability.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-03 The goal of financial management.
Topic: 01-11 The Goal of Financial Management

21. Control of the firm ultimately rests with board of directors. They elect the management, who, in turn, lead the company.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

22. The goal of financial managers does not imply that illegal or unethical actions should be taken in the hope of increasing the value of the firm.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

23. The collapse of companies like Enron and Hollinger International illustrates the impact unethical behaviour on public trust and confidence.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

24. Unethical behaviour does not impact volatility of the stock markets.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

25. The board of directors has the power to act on behalf of the shareholders to hire and fire the operating management of the firm. In a legal sense, the directors are "principals" and the shareholders are "agents".
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-15 The Agency Problem and Control of the Corporation
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

26. When owners are managers (such as in a sole proprietorship), a firm will have agency costs.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-17 Management Goals

27. IBEC Inc. of Toronto spends approximately $2 million annually to hire auditors to go over the firm's financial statements. This is an example of an indirect agency cost.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-17 Management Goals

28. Control of the firm ultimately rests with shareholders. They elect the board of directors, who then hire and fire management.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

29. Stakeholder theory suggests that employees, customers, suppliers, and various levels of government all have financial interests in the firm.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

30. Corporate social responsibility (CSR) is also referred to as corporate sustainability.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

31. Corporate social responsibility (CSR) is also referred to as the triple bottom line.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

32. The triple bottom line is defined as a company's commitment to operate in an economically, socially and environmentally sustainable manner.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

33. There is a significant relationship between CSR activity and corporate performance.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

34. Research results on CSR activity and corporate performance has been mixed.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

Multiple Choice Questions

35. A proprietorship is:
A. A business formed by two or more individuals.
B. A separate legal body formed by an individual who has limited personal liability.
C. A business owned by an individual who has unlimited personal liability.
D. A business managed by a single general partner.
E. A limited liability form of business ownership.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship

36. Which of the following would be considered a primary market transaction?
A. A buy order to an investment banker for a new public stock offering.
B. A buy order to a broker for shares of a company on the TSX.
C. A buy order to a broker for shares of a company on the Venture Exchange.
D. A buy order to a dealer for shares of a company OTC.
E. A sell order to a broker for a stock listed on the TSX.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

37. A stakeholder is:
A. Given to each stockholder when they first purchase their stock.
B. A proxy vote made at a shareholders' meeting.
C. A founding stockholder of the firm.
D. An original creditor of the firm.
E. A person or entity including a stockholder or creditor, who potentially has a claim on the cash flows of the firm.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

38. In a limited partnership:
A. Only the limited partners are involved in the daily management of the firm.
B. Both general and limited partners are involved in the daily management of the firm.
C. A limited partner is liable only for the amount he/she contributed to the partnership.
D. A general partner is liable only for the amount he/she contributed to the partnership.
E. The income earned is taxed like a corporation.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

39. A stakeholder is:
A. Any person or entity that owns shares of stock of a corporation.
B. Any person or entity that has voting rights based on stock ownership of a corporation.
C. A person who initially started a firm and currently has management control over the cash flows of the firm due to his/her current ownership of company stock.
D. A creditor to whom the firm currently owes money and who consequently has a claim on the cash flows of the firm.
E. Any person or entity who potentially has a claim on the cash flows of the firm.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

40. An agency problem is said to exist when there is a conflict of interest between _____ and _____.
A. An agent; his or her representative.
B. A broker; a dealer.
C. A principal; his or her agent.
D. One shareholder; another shareholder.
E. A shareholder; a stakeholder.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships

41. Which one of the following statements concerning a proprietorship is true?
A. A proprietorship can be a business jointly owned by two family members.
B. Income from a proprietorship is taxed as a separate entity.
C. A proprietor is personally responsible for 100% of the firm's liabilities.
D. A partial transfer of ownership is easier with a proprietorship than with a corporation.
E. Income from a proprietorship is taxed at a lower rate than other personal income.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship

42. You are interested in purchasing 100 shares of stock in one of the largest corporations in the Canada. You would most likely purchase the shares in _______________.
A. A secondary market operated as an auction market.
B. A primary market operated as an auction market.
C. A secondary market operated as a dealer market.
D. A primary market operated as a dealer market.
E. A secondary market operated as a money market.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

43. Which one of the following is a correct statement concerning a sole proprietorship?
A. A sole proprietorship is relatively difficult to form.
B. The profits earned by a sole proprietorship are subject to double taxation.
C. A sole proprietorship is more highly regulated than a corporation.
D. The losses incurred by a sole proprietor are limited to the amount invested in the firm.
E. It may be difficult to transfer the ownership of a sole proprietorship.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship

44. What is the difference between third and fourth markets?
A. A third market involves trading exchange-listed securities in OTC markets, while a fourth market trading involves institution-to-institution trading without using the services of brokers or dealers.
B. A third market involves trading institution-to-institution trading without using the services of brokers or dealers, while a fourth market involves trading exchange-listed securities in OTC markets.
C. A third market involves trading in corporate equities, while a fourth market involves trading in corporate debt.
D. A third market involves trading in corporate debt, while a fourth market involves trading in corporate equities.
E. A third market involves trading in call options, while a fourth market involves trading in warrants.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

45. The best definition of capital structure is:
A. The possibility of conflicts between shareholders and management in a large corporation.
B. The process of planning and managing a firm's long-term investments.
C. A venue where long-term debt and equity securities are bought and sold.
D. How a firm is financed through different proportions of debt and equity.
E. A venue where buyers and sellers of capital equipment come together to trade such assets.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

46. The best definition of capital markets is:
A. The possibility of conflicts between shareholders and management in a large corporation.
B. The process of planning and managing a firm's long-term investments.
C. A venue where long-term debt and equity securities are bought and sold.
D. The purchase or sale of securities whose value derives from the price of another, underlying, asset.
E. A venue where buyers and sellers of capital equipment come together to trade such assets.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-22 Money versus Capital Markets

47. Which one of the following actions is the best example of an agency problem?
A. Paying management bonuses based on the number of store locations opened during the year.
B. Paying management bonuses based on the current market value of the firm's stock.
C. Accepting a project that enhances both management salaries and the market value of the firm's stock.
D. Requiring stockholders approval of all management compensation decisions.
E. Basing management bonuses on the attainment of specific financial goals.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships
Topic: 01-17 Management Goals

48. Which of the following accounts does not relate to working capital management decisions?
A. Accounts payable.
B. Long-term debt.
C. Accounts receivable.
D. Inventory.
E. Short-term debt.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

49. The process of planning and managing a firm's long-term investments is called:
A. Working capital management.
B. Financial depreciation.
C. Agency cost analysis.
D. Capital budgeting.
E. Capital structure.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

50. The mixture of debt and equity used by the firm to finance its operations is called:
A. Working capital management.
B. Financial depreciation.
C. Agency cost analysis.
D. Capital budgeting.
E. Capital structure.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

51. The process of planning and managing a firm's long-term investments is called:
A. Working capital management.
B. Financial depreciation.
C. Agency cost analysis.
D. Capital budgeting.
E. Capital structure.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

52. The management of the firm's short-term assets and liabilities is called:
A. Working capital management.
B. Financial depreciation.
C. Agency cost analysis.
D. Capital budgeting.
E. Capital structure.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

53. In corporate agency theory, managers are __________, and owners are __________.
A. Bondholders, shareholder.
B. Shareholder, bondholders.
C. Agents, principals.
D. Principals, agents.
E. Agents, contractors.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships

54. Which one of the following actions by a financial manager creates an agency problem?
A. Refusing to borrow money when doing so will create losses for the firm.
B. Refusing to lower selling prices if doing so will reduce the net profits.
C. Agreeing to expand the company at the expense of stockholders' value.
D. Agreeing to pay bonuses based on the market value of the company stock.
E. Increasing current costs to increase the market value of the stockholders' equity.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships
Topic: 01-17 Management Goals

55. Which one of the following statements is correct concerning the listing of stock on an exchange?
A. The TSX has the most stringent listing requirements of any Canadian stock exchange.
B. Any firm can list their stock on any exchange they desire.
C. All exchanges have the same listing requirements.
D. Listing requirements are established by the Ontario Securities Commission.
E. The number of shareholders is NOT a listing consideration for a stock.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

56. Which of the following statements concerning auction markets is correct?
A. The TSX is an auction market.
B. NASDAQ is an auction market.
C. All trades involve a dealer in an auction market.
D. An auction market is called an over-the-counter market.
E. A market where buyers specify the lowest price they are willing to pay and sellers indicate the highest price they are willing to accept.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

57. Capital structure decisions include which of the following?
A. Determining the number of shares of stock to issue.
B. Determining whether the firm should purchase or lease some equipment.
C. Allocating funds to the various divisions within the firm.
D. Evaluating the size of inventory to be kept on hand.
E. Evaluating the customer credit policy.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

58. The document that legally establishes domicile for a corporation is called the:
A. Indenture contract.
B. Partnership agreement.
C. Amended homestead filing.
D. Bylaws.
E. Articles of incorporation.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

59. NASDAQ is:
A. The largest financial market in the U.S. in terms of the total value of listed stocks.
B. Both an OTC and an auction market.
C. An electronic market trading solely in corporate and government bonds.
D. An electronic market which has no physical location.
E. A market with far fewer listings than the NYSE.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

60. Of the following, which statement regarding agency costs is false?
A. An agency problem exists when there is a conflict of interest between the stockholders and management of a firm.
B. An agency problem exists when there is a conflict of interest between a principal and an agent.
C. An indirect agency cost occurs when firm management avoids risky projects that would favourably affect the stock price because the managers are worried about keeping their jobs.
D. A corporate expenditure that benefits stockholders but harms management is an agency cost.
E. If agency costs get too high in the eyes of shareholders, they can begin a proxy fight to replace existing management.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-17 Management Goals

61. Which one of the following is a primary market transaction?
A. A dealer selling shares of stock to an individual investor.
B. A dealer buying newly issued shares of stock from a corporation.
C. An individual investor selling shares of stock to another individual.
D. A bank selling shares of a medical firm to an individual.
E. A sole proprietor buying shares of stock from an individual investor.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

62. Which one of the following transactions would occur in the primary market?
A. The gifting of ABC Co. shares by a grandmother to her grandchildren.
B. A financial institution selling shares of OPQ stock to another financial institution.
C. An individual selling shares of JKL stock to an existing JKL shareholder.
D. A financial institution buying shares of LM stock from an LM executive.
E. KM Co. selling new shares of stock to a financial institution.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

63. The size, risk, and timing of future cash flows are the key elements evaluated in the:
A. Capital budgeting process.
B. Cash management process.
C. Analysis of working capital.
D. Capital structure decision.
E. Analysis of current assets.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

64. Dealer markets:
A. Are reserved strictly for trading debt securities.
B. Only exist outside of Canada.
C. Are called over-the-counter markets.
D. Include NASDAQ and the New York Stock Exchange.
E. List only the securities of the largest firms.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

65. Sue Folker wants to start a new business decommissioning nuclear warheads and reactors. The work will involve significant hazards, and Sue is concerned about protecting her personal wealth from any losses the business might incur. If she is to be the majority owner of the business how should she structure it?
A. As a corporation.
B. As a general partnership.
C. As a limited partnership.
D. As a sole proprietorship.
E. As a real estate investment trust.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

66. A firm's capital structure is defined as follows
A. As the combination of debt and equity used to finance the firm's operations.
B. By the types of fixed assets the firm owns.
C. As the mix of short-term and long-term assets owned by the firm.
D. As the amount of fixed assets needed to support every $1 in sales.
E. By the nature of the product or service provided.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

67. The primary goal of financial management is to:
A. Maximize current sales.
B. Maximize the current value per share of the existing stock.
C. Avoid financial distress.
D. Minimize operational costs.
E. Maintain steady earnings growth.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-03 The goal of financial management.
Topic: 01-13 The Goal of Financial Management

68. Which of the following is the BEST description of the goal of the financial manager in a corporation where shares are publicly traded?
A. Maximize sales.
B. Maximize profits.
C. Avoid financial distress.
D. Maintain steady earnings growth.
E. Maximize the current value per share of the existing stock.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-03 The goal of financial management.
Topic: 01-13 The Goal of Financial Management

69. An individual who buys and sells stocks for his/her own account is a:
A. Dealer.
B. Agent.
C. Broker.
D. Auctioneer.
E. OTC broker.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-22 Money versus Capital Markets
Topic: 01-23 Primary versus Secondary Markets

70. Ensuring that a firm has sufficient cash available on a daily basis is part of:
A. Capital budgeting.
B. Working capital management.
C. Business organization.
D. Capital structure.
E. Organizational structure.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

71. Which of the following would be considered a secondary market transaction?
A. Buy or sell orders to a broker for shares listed on the TSX.
B. Buy or sell orders only for corporate bonds.
C. Buy or sell orders for corporate warrants.
D. Buy or sell orders for shares listed on the TSX or corporate bonds.
E. Buy or sell orders only for call or put options.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

72. A dealer is a person who:
A. Conducts a trade on behalf of another individual.
B. Buys and sells but does not own the commodity being bought or sold.
C. Buys and sells on behalf of the original issuer of the commodity being bought or sold.
D. Buys and sells for themselves, at their own risk.
E. Buys and sells strictly on the trading floor of an exchange.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-22 Money versus Capital Markets
Topic: 01-23 Primary versus Secondary Markets

73. According to the statement of financial position model of the firm, corporate finance can be thought of as an analysis of three primary subject areas. Which of the following correctly lists these areas?
A. Capital structure, capital budgeting, security analysis.
B. Capital budgeting, capital structure, capital spending.
C. Capital budgeting, capital structure, net working capital.
D. Capital structure, net working capital, capital rationing.
E. Capital budgeting, capital spending, net working capital.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

74. The decision of which lender to use and which type of long-term loan is best for a project is part of:
A. Working capital management.
B. The net working capital decision.
C. Capital budgeting.
D. A controller's duties.
E. Capital structure decision.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

75. The decision to issue debt rather than additional shares of stock is an example of:
A. Working capital management.
B. A net working capital decision.
C. Capital budgeting.
D. A controller's duties.
E. Capital structure decision.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

76. The mix of debt and equity by which a corporation is financed refers to the firm's:
A. Cash management.
B. Capital structure.
C. Capital budgeting.
D. Working capital management.
E. Leverage management.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

77. Mr. Webster, the CEO of Master Works, Inc., recently stated that the firm will maintain its current policy of borrowing $0.40 for every $1 invested by shareholders. Mr. Webster was referring to the _____ policy of the firm.
A. Capital budgeting.
B. Working capital.
C. Capital structure.
D. Capital investment.
E. Financial planning.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

78. Deciding whether to open a new store is part of the process known as:
A. Capital budgeting.
B. Credit management.
C. Capital structure.
D. Cash management.
E. Working capital management.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

79. The Chief Financial Officer of a corporation is the:
A. Chairman of the Board.
B. President.
C. Chief Executive Officer.
D. Vice President of Finance.
E. Corporate Treasurer.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

80. The treasurer and the controller of a corporation generally report to the:
A. Board of directors.
B. Chairman of the board.
C. Chief executive officer.
D. President.
E. Vice president of finance.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

81. The treasurer of a firm is most apt to report to the:
A. Controller.
B. President.
C. Chief operating officer.
D. Chief executive officer.
E. Vice president of finance.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

82. Which of the following is considered a primary market transaction?
A. A firm sells stock to the public for the first time in an IPO.
B. An investor buys stock in Chrysler Canada from his buddy.
C. Chrysler Canada's stockholders sell some of their shares to an activist investor.
D. On September 25, 1995, 30.8 million shares of stock changed hands on the TSX.
E. Labatt's just announced what their upcoming quarterly dividend payment will be.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

83. Which of the following statement is correct regarding control of the firm?
A. Control of the firm ultimately rests with shareholders. They elect the board of directors, who then hire and fire management.
B. Control of the firm ultimately rests with board of directors. They elect the management, who lead the company.
C. Control of the firm rests with the executives that oversea the strategic planning.
D. Control of the firm rests with regulatory bodies working in unison with executives.
E. Control of the firm rests with government agencies and regulatory bodies working in unison with the board of directors.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

84. The person generally directly responsible for overseeing the tax management, cost accounting, financial accounting, and data processing functions is the:
A. Treasurer.
B. Director.
C. Controller.
D. Chairman of the board.
E. Chief executive officer.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

85. The person generally directly responsible for overseeing the cash and credit functions, financial planning, and capital expenditures is the:
A. Treasurer.
B. Director.
C. Controller.
D. Chairman of the board.
E. Chief operations officer.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

86. The corporate document that sets forth the business purpose of a firm is the:
A. Indenture contract.
B. Provincial tax agreement.
C. Corporate bylaws.
D. Corporate charter.
E. Articles of incorporation.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

87. The corporate officer generally responsible for tasks related to tax management, cost accounting, financial accounting, and data processing is the:
A. Corporate Treasurer.
B. Director.
C. Corporate Controller.
D. Chairman of the Board.
E. Vice President of Operations.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

88. The corporate officer generally responsible for tasks related to cash and credit management, financial planning, and capital expenditures is the:
A. Corporate Treasurer.
B. Director.
C. Corporate Controller.
D. Chairman of the Board.
E. Vice President of Operations.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

89. Agency costs are:
A. The total dividends paid to shareholders over the lifetime of the firm.
B. The costs that result from default and bankruptcy of the firm.
C. Corporate income subject to double taxation.
D. The costs of the conflict of interest between stockholders and management.
E. The total interest paid to creditors over the lifetime of the firm.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-17 Management Goals

90. The death of the firm's owner(s) does NOT effectively dissolve which type(s) of organization?
A. Sole proprietorship.
B. Partnership.
C. Corporation.
D. Hybrid partnership.
E. Limited proprietorship.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

91. Which one of the following business types is best suited to raising large amounts of capital?
A. Sole proprietorship.
B. Limited liability company.
C. Corporation.
D. General partnership.
E. Limited partnership.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

92. The mixture of debt and equity used by a firm to finance its operations is called:
A. Working capital management.
B. Financial depreciation.
C. Cost analysis.
D. Capital budgeting.
E. Capital structure.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

93. The best definition of financial engineering is:
A. A company that owns or finances income-producing real estate.
B. A company that owns or finances engineering projects.
C. Creation of new securities or financial processes.
D. Financial markets where long-term debt and equity securities are bought and sold.
E. The purchase or sale of securities whose value derives from the price of another, underlying, asset.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Trends in financial markets.
Topic: 01-25 Trends in Financial Markets and Financial Management

94. Which one of the following groups is the goal of financial management centered around?
A. Potential new shareholders.
B. Existing shareholders.
C. Current creditors.
D. The CRA.
E. Existing management.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-03 The goal of financial management.
Topic: 01-13 The Goal of Financial Management

95. The primary goal of financial management is to maximize the:
A. Growth rate of a firm.
B. Compensation of the corporate officers.
C. Current value of each share of outstanding stock.
D. Number of shares of common stock outstanding.
E. Book value of the firm.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-03 The goal of financial management.
Topic: 01-13 The Goal of Financial Management

96. The Corporate Treasurer is in charge of:
A. Cost accounting.
B. Credit management.
C. Data processing.
D. Tax management.
E. Financial accounting.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

97. A market where dealers buy and sell securities for themselves, at their own risk, is called a(n):
A. Primary market.
B. Secondary market.
C. Dealer market.
D. Auction market.
E. Liquidation market.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-22 Money versus Capital Markets
Topic: 01-23 Primary versus Secondary Markets

98. A market where trading takes place directly between buyers and sellers is called a(n):
A. Primary market.
B. OTC market.
C. Dealer market.
D. Auction market.
E. Liquidation market.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

99. The original sale of securities by governments and corporations occurs in the:
A. Primary market.
B. Secondary market.
C. Dealer market.
D. Auction market.
E. Liquidation market.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

100. The purchase and sale of securities after the original issuance occurs in the:
A. Primary market.
B. Secondary market.
C. Dealer market.
D. Auction market.
E. Liquidation market.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

101. The purchase and sale of shares between investors are done in which market?
A. Secondary market.
B. Foreign exchange market.
C. Debt market.
D. Derivatives market.
E. Tertiary market.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

102. Suppliers, customers, and employees of a corporation are called:
A. Shareholders.
B. Stakeholders.
C. Debtors.
D. Creditors.
E. Partners.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

103. Which one of the following is a capital budgeting decision?
A. Determining how much debt should be borrowed from a particular lender.
B. Deciding whether to open a new store.
C. Deciding when to repay a long-term debt.
D. Determining how much inventory to keep on hand.
E. Determining how much money should be kept in the checking account.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

104. Which of the following is not a duty of a financial manager?"
A. Deciding how much interest to pay the holders of the corporation's bonds.
B. Deciding the mix of long-term debt and equity.
C. Deciding which projects a firm should undertake.
D. Deciding how much short-term debt to use.
E. Deciding on the optimal product mix to sell.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager
Topic: 01-04 Financial Management Decisions

105. The best definition of agency problem is:
A. The possibility of conflicts between shareholders and management in a large corporation.
B. The process of planning and managing a firm's long-term investments.
C. Determining the optimal mix of internal and external board of directors.
D. The purchase or sale of securities whose value derives from the price of another, underlying, asset.
E. Determining who should be the agent of corporate executives.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-15 The Agency Problem and Control of the Corporation

106. The primary purpose of capital budgeting is to:
A. Determine the amount of cash and inventory to keep on hand.
B. Estimate the initial cost of a project.
C. Distinguish projects that have at least a five-year life from those that don't.
D. Determine the risk level of a project.
E. Identify projects that produce cash flows that exceed the cost of the project.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

107. Cash flow from a firm's assets can be:
A. Reinvested to other companies.
B. Paid out as interest.
C. Distributed to bondholders.
D. Invested in money market funds.
E. Reinvested back in the company.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-21 Cash Flows to and from the Firm

108. Which of the following are disadvantages of the partnership form of ownership?
A. Personal liability and double taxation.
B. Personal liability and limited firm life.
C. Double taxation and limited firm life.
D. Ease of formation and unlimited firm life.
E. Ease of formation and ease of ownership transfer.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

109. Which of the following is considered a benefit of the corporate form of organization?
A. Ease of the transfer of ownership.
B. Limited life.
C. Double taxation.
D. Ease of reporting.
E. Ease of entry into stock exchange.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

110. In a general partnership:
A. Each partner is personally responsible for all of the firm's debt.
B. Each partner is responsible only for his/her portion of the firm's debt based on ownership percentage.
C. Each partner is liable only for the portion of the total debt he/she agreed in writing to pay.
D. Only the general partner is liable for the firm's debt.
E. None of the partners are personally liable for the firm's debt.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

111. Two of the primary advantages of a sole proprietorship are the:
A. Ease of company formation and limited liability.
B. Ease of company formation and less regulation.
C. Ease of ownership transfer and less regulation.
D. Ease of ownership transfer and ease of company formation.
E. Ability to raise capital and less regulation.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship

112. Which one of the following actions best meets the goal of financial management?
A. Deciding a firm should be 100% equity financed.
B. Delaying cash payments to increase the total cash on hand.
C. Easing the accounts receivable policies to increase current sales.
D. Accepting a project that enhances the current market value of the firm's stock.
E. Issuing additional shares of stock to increase the total cash on hand.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-03 The goal of financial management.
Topic: 01-13 The Goal of Financial Management

113. Working capital management:
A. Ensures that sufficient equipment is available to produce the amount of product desired on a daily basis.
B. Ensures that long-term debt is acquired at the lowest possible cost.
C. Ensures that dividends are paid to all stockholders on an annual basis.
D. Balances the amount of company debt to the amount of available equity.
E. Concerned with having sufficient funds to operate the business on a daily basis.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

114. Which one of the following is a capital budgeting decision?
A. Ascertaining the optimal level of inventory.
B. Determining which bank has the best loan terms.
C. Evaluating the minimal amount of cash which the firm should keep on hand.
D. Deciding whether or not the firm should open another retail outlet.
E. Establishing the length of time for which store credit will be offered.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

115. A general partner:
A. Has less legal liability than a limited partner.
<u>B.</u> Has more management responsibility than a limited partner.
C. Faces double taxation whereas a limited partner does not.
D. Cannot lose more than the amount of his/her equity investment.
E. Is the term applied only to corporations which invest in partnerships.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

116. The treasurer can be defined as the person who is generally responsible for overseeing the _____ of a firm.
A. Tax matters.
B. Data processing functions.
C. Financial accounting.
D. Cost accounting.
<u>E.</u> Financial planning.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

117. Which of the following does NOT correctly finish this sentence: In Canada, ____________.
A. The OTC market does not have a central location.
<u>B.</u> Over-the-counter markets are operated as auction markets.
C. Financial markets function as both primary and secondary markets for debt and equity securities.
D. New issues of securities occur in primary markets.
E. Auction markets have a physical location.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

118. The best definition of money markets is:
A. Financial markets where shares are bought and sold for cash.
B. Financial markets where long-term debt and equity securities are bought and sold.
C. Financial markets where foreign currency is bought and sold.
<u>D.</u> Financial markets where short-term debt securities are bought and sold.
E. Financial markets where long-term debt securities are bought and sold.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-22 Money versus Capital Markets

119. The best definition of REIT is:
<u>A.</u> A company that owns or finances income-producing real estate.
B. Financial markets where long-term debt and equity securities are bought and sold.
C. Financial markets where foreign currency is exchanged for real estate.
D. Financial markets where short-term debt securities are bought and sold.
E. Financial markets where long-term debt securities are bought and sold.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-09 Income Trust

120. The best definition of capital budgeting is:
A. The possibility of conflicts between shareholders and management in a large corporation.
<u>B.</u> The process of planning and managing a firm's long-term investments.
C. Financial markets where long-term debt and equity securities are bought and sold.
D. The purchase or sale of securities whose value derives from the price of another, underlying, asset.
E. The annual process of providing a benchmark for financial performance.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

121. The best definition of derivative securities is:
A. An insurance policy that ensures underlying assets are secured.
B. Investment products whose value derives from the price of another, underlying, asset.
C. Financial markets where long-term debt and equity securities are bought and sold.
D. Creation of new securities or financial processes.
E. A compensation package for managers that ties their salary to the firm's share price.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-07 Trends in financial markets.
Topic: 01-25 Trends in Financial Markets and Financial Management

122. A business formed by two or more individuals who each have unlimited liability for business debts is called a:
A. Corporation.
B. Sole proprietorship.
C. General partnership.
D. Limited partnership.
E. Limited liability company.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

123. A business created as a distinct legal entity composed of one or more individuals or entities is called a:
A. Corporation.
B. Sole proprietorship.
C. General partnership.
D. Limited partnership.
E. Unlimited liability company.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

124. Which one of the following is a disadvantage of a partnership?
A. Double taxation.
B. Ability to raise capital as compared to a sole proprietorship.
C. Growth limitations due to the inability to raise investment capital.
D. The debt obligations of a limited partner.
E. Complexity and cost of partnership formation.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

125. Which statement best describes hedge funds:
A. Hedge funds are largely unregulated and privately managed investment funds catering to sophisticated investors, which look to earn high returns using aggressive financial strategies prohibited by mutual funds.
B. Hedge funds are highly regulated and publicly managed investment funds catering to novice investors, which look to earn average returns using simple financial strategies similar to mutual funds.
C. Hedge funds are regulated and publicly managed investment funds catering to sophisticated investors, which look to earn high returns using aggressive financial strategies prohibited by mutual funds.
D. Hedge funds are largely unregulated and privately managed investment funds catering to sophisticated investors, which look to earn high returns using aggressive financial strategies similar to mutual funds.
E. Hedge funds are secondary market sources of raising capital for startup companies.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 01-06 Types of financial institutions.
Topic: 01-24 Financial Institutions

126. Which of the following statements is false concerning limited partnerships?
A. Limited partners are responsible for all debts of the partnership.
B. Limited partners generally do not manage the partnership.
C. In a limited partnership, all partners share is limited to the amount contributed to the partnership.
D. Limited partnerships can bring in more partners.
E. Limited partnerships have limited liability (to the extent of their investment).

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

127. Which one of the following statements concerning a partnership is true?
A. Under a general partnership, only the key partner is personally liable for the business debts.
B. Limited partners in a limited partnership should be actively involved in management decisions.
C. Income from a limited partnership is taxed as corporate income.
D. A primary advantage of a partnership is the ease of transferring ownership.
E. A partnership terminates at the death of any partner.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

128. A sole proprietorship is best defined as a business owned by:
A. A single individual who has limited liability for the firm's debts.
B. A single individual who has unlimited liability for the firm's debts.
C. Individuals who enjoy limited liability.
D. One or more individuals who have agreed to accept unlimited liability for the firm.
E. An individual for less than ten years.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship

129. The area of corporate finance concerned purchasing and selling stocks and bonds is called:
A. Investments.
B. Municipal finance.
C. International finance.
D. Institutional finance.
E. Strategic finance.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-06 Types of financial institutions.
Topic: 01-24 Financial Institutions

130. An individual who places an order to buy 1000 shares of IBM stock:
A. Is involved in a private placement of securities.
B. Is most likely involved in an IPO.
C. Is most likely participating in the secondary market.
D. Must have hired a dealer to perform this transaction.
E. Has to be listed as a private dealer.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

131. Working capital management:
A. Includes the daily oversight of a firm's cash requirements.
B. Involves the determination of how much long-term debt should be issued.
C. Is the oversight of a firm's long-term assets.
D. Deals with the refinancing of the firm's debt if interest rates decline.
E. Deals with the allocation of equipment to various jobs on a daily basis.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

132. Which one of the following actions by a financial manager is most aligned with the goal of financial management?
A. Increasing the size of a firm by acquiring a non-profitable competitor.
B. Increasing the sales of the firm by expanding the company's sales force.
C. Issuing additional shares of stock to repay all of the firm's long-term debt.
D. Improving the efficiency of the company such that the value of the stock increases.
E. Increasing the bonuses paid to the top executives as the size of the firm increases.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-03 The goal of financial management.
Topic: 01-13 The Goal of Financial Management

133. An entity wherein one or more owners may elect to actively manage the firm while other owners choose limited liability instead of management responsibility is called a:
A. Corporation.
B. General partnership.
C. Limited liability corporation.
D. Limited liability company.
E. Limited partnership.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

134. Limited liability may be a characteristic of each of the following form(s) of organization EXCEPT a ________________.
A. Sole proprietorship.
B. Corporation.
C. Limited partnership.
D. Limited liability company.
E. Co-operative(Co-op)

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship

135. A business that is a distinct legal entity is a:
A. Proprietorship.
B. Partnership with only two partners.
C. Limited partnership.
D. General partnership.
E. Corporation.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

136. It is easiest to raise capital for a project under which form of business organization?
A. Corporation.
B. General partnership.
C. Limited partnership.
D. Sole proprietorship.
E. The form of business organization does NOT affect the ability to raise capital.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

137. Robert Fischer is one of the owners of a firm which generated $18,000 in taxable income last year. Robert did not have to pay any personal tax on his share of the firm's income. Robert must be a partial owner of a:
A. Sole proprietorship.
B. General partnership.
C. Limited partnership.
D. Non-dividend paying corporation.
E. Limited liability company.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

138. Which type of business organization has all the respective rights and privileges of a legal person?
A. Sole proprietorship.
B. General partnership.
C. Limited partnership.
D. Corporation.
E. Limited liability company.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

139. Which form of business structure faces the greatest agency problems?
A. Sole proprietorship.
B. General partnership.
C. Limited partnership.
D. Corporation.
E. Limited liability company.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships

140. Which of the following are advantages of the corporate form of ownership?
A. Limited personal liability and limited firm life.
B. Ability to raise capital and limited firm life.
C. Limited personal liability and ability to raise capital.
D. Ease of ownership transfer and simplicity of company formation.
E. Simplicity of company formation and the ability to raise capital.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

141. Working capital management is concerned with which statement of financial position accounts?
A. Current assets only.
B. Current and long-term assets only.
C. Long-term assets only.
D. Current assets and current liabilities only.
E. Current assets, long-term assets and current liabilities only.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

142. Which of the following is not an agency cost?
A. Flying an executive overseas without a genuine business purpose for doing so.
B. Paying more than the actual market value to purchase a competitor.
C. Low-interest loans to corporate executives.
D. Protecting management jobs which could effectively be eliminated.
E. Interest paid on long-term corporate borrowing.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships
Topic: 01-17 Management Goals

143. Conflicts that arise between the interests of managers and stockholders are referred to as:
A. Control problems.
B. Agency problems.
C. Management conflicts.
D. Stockholder conflicts.
E. Proxy fights.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships

144. Which of the following is a capital structure decision?
A. Cost of acquiring funds for the company.
B. Management of current assets and liabilities.
C. Management of net working capital.
D. Which projects should be accepted or rejected.
E. Timing and risks of cash flows for an upcoming project.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

145. Which one of the following best illustrates the agency problem?
A. An employee offers a suggestion which will save the company money and reduce the stress of his job.
B. The company creates a management bonus program whereby managers are rewarded when the market price of the firm's stock rises.
C. Management rejects a merger which was desired by the shareholders.
D. Management expands its operations overseas which is favourably received by the financial markets.
E. Management reduces the risk level of the firm while maintaining a steady stock price.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships
Topic: 01-17 Management Goals

146. The agency problem is best defined as a conflict of interest between a firm's:
A. Various employees.
B. Various managers.
C. Managers and the firm's employees.
D. Stockholders and the firm's managers.
E. Stockholders and the firm's debtors.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships

147. The decisions made by financial managers should all be ones which increase the:
A. Size of the firm.
B. Growth rate of the firm.
C. Marketability of the managers.
D. Market value of the existing owners' equity.
E. Financial distress of the firm.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-03 The goal of financial management.
Topic: 01-13 The Goal of Financial Management

148. Ann is interested in purchasing Ted's factory. Since Ann is a poor negotiator, she hires Mary to negotiate the purchase price. Identify the parties to this transaction.
A. Mary is the principal and Ann is the agent.
B. Ted is the principal and Ann is the agent.
C. Mary is the agent while Ted and Ann together are principals.
D. Ann is the principal and Mary is the agent.
E. Ann is the principal and Ted is the agent.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships

149. The triple bottom line measures:
A. Measures a company's economic, social and environmental performance.
B. Measures a company's performance within its three financial statements.
C. Measures a company's performance within the primary, secondary and tertiary markets.
D. Measures a company's performance of its revenues, gross profit and net income against its annual strategic plan.
E. Measures a company's performance against the top three competitors in the market.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

150. The primary market is defined as the market:
A. Wherein the original sale of securities by the issuer to the general public occurs.
B. Where stocks and bonds are exchanged between dealers.
C. Mechanism by which a sale of a financial instrument between two shareholders is conducted.
D. Operated by brokers for the benefit of shareholders.
E. Commonly known as the over-the-counter market.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

151. A general partnership is best defined as a business owned by:
A. A single individual who desires limited liability for the firm's debts.
B. One or more individuals who are each totally responsible for the debts of the entity.
C. Multiple individuals, 80 percent of whom enjoy limited liability.
D. Two or more individuals, each of whom has limited liability for the firm's debts.
E. Two or more individuals, only one of whom has unlimited liability for the firm's debts.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

152. The Treasurer:
A. Is responsible for overseeing the data processing functions within a firm.
B. Has the responsibility for managing the cash for an organization.
C. Must keep current on tax laws since he/she is responsible for managing the taxes for a firm.
D. Must file quarterly financial statements in a timely manner.
E. Reports directly to the Chief Executive Officer of a corporation.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

153. Which of the following is not a Canadian financial institution?
A. Trust companies.
B. Provincial governments.
C. Mutual funds.
D. Investment dealers.
E. Chartered banks.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-06 Types of financial institutions.
Topic: 01-24 Financial Institutions

154. Which of the following statements concerning NASDAQ is incorrect?
A. NASDAQ is an auction market.
B. Most smaller firms are listed on NASDAQ rather than on the NYSE.
C. NASDAQ is an electronic market.
D. NASDAQ is an OTC market.
E. NASDAQ stands for National Association of Securities Dealers Automated Quotations system.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

155. Which one of the following best describes the primary advantage of being a limited partner rather than a general partner?
A. Entitlement to a larger portion of the partnership's income.
B. Ability to manage the day-to-day affairs of the business.
C. No potential financial loss.
D. Greater management responsibility.
E. Liability for firm debts limited to the capital invested.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

156. Which one of the following means of management compensation is designed to help eliminate the agency problem?
A. Providing cost of living adjustments.
B. Increasing health care benefits.
C. Offering stock options.
D. Providing annual raises.
E. Providing a corporate jet.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-17 Management Goals

157. On a typical day in Canada, the largest dollar volume of shares are traded _______.
A. Over the counter.
B. On the TSX.
C. On the Venture Exchange.
D. On the NYSE.
E. In primary markets.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

158. To avoid the agency problem, managers should take actions:
A. Which adds value to the firm.
B. Only after the president has approved them.
C. Only if they increase the market share of the firm.
D. Which add to the size of the firm's workforce.
E. Only if management jobs will not be jeopardized.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships
Topic: 01-17 Management Goals

159. When considering a capital budgeting project the financial manager should consider:
A. Only the size of the project.
B. Only the timing of the project cash flows.
C. Only the risk of the project cash flows.
D. Only the size and timing of the project cash flows.
E. The size, timing, and risk of the project cash flows.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

160. Luis has just decided that his firm should obtain $10 million in bank financing from the Atlantic Bank and Trust and should issue $25 million in new equity shares. Luis has just made a(n) _____ decision.
A. Working capital
B. Capital structure
C. Operational
D. Capital budgeting
E. Marketing

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

161. Which of the following is incorrect regarding employee stock options?
A. It allows management to purchase shares at a fixed price over a period of time.
B. It provides the manager with an ownership stake in the company.
C. Options are meant to align the manager's and actions with shareholders' interests.
D. Many believe management are already overpaid.
E. Many believe management are underpaid and stock options will benefit pay.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

162. Which of the following is a true statement concerning a general partnership?
A. Partners are not responsible for the debts of the partnership.
B. The income of a partnership is taxed at the partners' income tax rate.
C. Partners generally do not manage the partnership.
D. Partnerships have unlimited lives similar to corporations.
E. Partnerships are taxed at the corporate level.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

163. The rules by which corporations govern themselves are called:
A. Indenture provisions.
B. Indemnity provisions.
C. Partnership agreements.
D. Bylaws.
E. Articles of incorporation.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

164. A business owned by a single individual is called a(n):
A. Corporation.
B. Sole proprietorship.
C. Partnership.
D. Closed receivership.
E. Open structure.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship

165. A business formed by two or more individuals or entities is called a(n):
A. Corporation.
B. Sole proprietorship.
C. Partnership.
D. Closed receivership.
E. Open structure.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

166. A business created as a distinct legal entity composed of one or more individuals or entities is called a(n):
A. Corporation.
B. Sole proprietorship.
C. Partnership.
D. Closed receivership.
E. Open structure.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

167. Which one of the following statements is correct?
A. Both partnerships and corporations incur double taxation.
B. Both sole proprietorships and partnerships are taxed in a similar fashion.
C. Partnerships are the most complicated type of business to form.
D. Both partnerships and corporations have bylaws.
E. All types of business formations have limited lives.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

168. Margie has just been promoted to the position of working capital manager. As part of her duties, Margie will be responsible for:
A. Allocating manufacturing overhead.
B. Controlling labour costs.
C. Pricing manufactured goods.
D. Managing long-term debt.
E. Overseeing accounts payable.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

169. A(n) ______________ is a sale of securities which typically does not require registration with the OSC.
A. Initial public offering.
B. Over-the-counter transaction.
C. Primary market transaction.
D. Secondary market transaction.
E. Private placement.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

170. The original sale of securities by governments and corporations to the general public occurs in the:
A. Primary market.
B. Secondary market.
C. Private placement market.
D. Proprietary market.
E. Liquidation market.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

171. Capital budgeting is defined as the:
A. Mix of debt and equity used by a firm to finance its operations.
B. Management of a firm's long-term investments.
C. Process of determining the optimal types and amounts of inventory to keep on hand.
D. Determination of the total amount of money which a firm should borrow.
E. Management of a firm's net working capital.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

172. The controller can be defined as the person who is generally responsible for overseeing the _____ of a firm.
A. Cash balances.
B. Capital expenditures.
C. Production functions.
D. Accounting functions.
E. Financial planning.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

173. The primary purpose of an auction market is to:
A. Offer new shares of stock to the general public.
B. Handle private placements of shares of stock.
C. Provide a market place for dealers.
D. Provide electronic trading for dealers.
E. Match buyers with sellers.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

174. What are the two types of primary market transactions that Corporations engage in?
A. Primary and secondary placements.
B. Debt and equity placements.
C. Public offerings and private placements.
D. Staggered and orderly offerings.
E. Dutch auctions and orderly offerings.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

175. Which of the following is disadvantage of a sole proprietorship?
A. The owner receiving all the after-tax profit.
B. Unlimited liability.
C. Quick decision making.
D. Can be created through a simple business license.
E. Less reliance on partners.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship

176. Managers who place the interest of the shareholders first, will tend to:
A. Be replaced on a routine basis.
B. Decline all offers to buy the firm.
C. Realize minimal value from the stock options they are granted.
D. Reward employees for unethical behavior if that behavior increases the firm's net income.
E. Be in greater demand and receive higher compensation.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

177. Which of the following is a type of agency cost?
A. The cost of an audit of the firm's financial statements.
B. The cost of a corporate jet needed to keep tabs on foreign operations.
C. Salaries paid to the firm's managers.
D. The costs of financing the firm.
E. The cost of buying insurance on the firm's assets.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-17 Management Goals

178. Stocks that trade on an exchange are referred to as:
A. Primary stocks.
B. Optioned stocks.
C. SEC stocks.
D. Privately held stocks.
E. Listed stocks.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

179. When one shareholder sells stock directly to another, the transaction is said to occur in the:
A. Dealer market.
B. Primary market.
C. Secondary market.
D. OTC market.
E. TSX market.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

180. The articles of incorporation:
A. Can be used to remove company management.
B. Are amended annually by the company stockholders.
C. Set forth the number of shares of stock that can be issued.
D. Set forth the rules by which the corporation regulates its existence.
E. Can set forth the conditions under which the firm can avoid double taxation.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

181. Complete this sentence: The bylaws…
A. establish the name of the corporation.
B. Aae rules which apply only to limited liability companies.
C. set forth the purpose of the firm.
D. mandate the procedure for electing corporate directors.
E. set forth the procedure by which the stockholders elect the senior managers of the firm.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

182. The secondary market is the market wherein …
A. one issuer exchanges securities directly with another issuer.
B. the government is either the buyer or the seller of the security.
C. shareholders buy from and sell to other shareholders.
D. the security issuer is the seller and the buyer is a member of the general public.
E. the security issuer is the buyer and the seller is a member of the general public.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

183. Which of the following questions is not the responsibility of the financial manager?
A. How long will it take to produce a product?
B. What product should the firm produce?
C. Should the firm borrow more money?
D. Should the firm build a new factory?
E. How long should customers be given to pay for their credit purchases?

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager
Topic: 01-04 Financial Management Decisions

184. The division of profits and losses between the members of a partnership is formalized in the:
A. Indemnity clause.
B. Indenture contract.
C. Statement of purpose.
D. Partnership agreement.
E. Group charter.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

185. Which of the following is a disadvantage of the corporate form of ownership?
A. Limited liability.
B. Ease of transfer of ownership.
C. Taxation.
D. Ability to raise capital.
E. The life of the corporation.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

186. A partnership:
A. Is taxed the same as a corporation.
B. Agreement defines whether the business income will be taxed like a partnership or a corporation.
C. Terminates at the death of any general partner.
D. Has less of an ability to raise capital than a proprietorship.
E. Allows for easy transfer of interest from one general partner to another.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership

187. The best definition of corporate governance is:
A. The possibility of conflicts between shareholders and management in a large corporation.
B. The process of planning and managing a firm's long-term investments.
C. The actions that are deemed as socially responsible.
D. The manner in which shareholders agree on corporate capital structure.
E. The mechanisms and processes by which corporations are directed and controlled.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

188. The possibility of conflict of interest between the stockholders and management of the firm is called:
A. The shareholders' conundrum.
B. Corporate breakdown.
C. The agency problem.
D. Corporate activism.
E. Legal liability.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships

189. Bylaws are:
A. The terms by which partnership profits are distributed.
B. The rules by which corporations govern themselves.
C. The agreements specifying which partners are general partners and which are limited partners.
D. The documents which set forth the business purpose of a firm.
E. The documents which specify how tax liabilities will be allocated among the owners.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

190. Which of the following is not a capital budgeting decision?
A. The amount of debt versus the amount of equity which should be obtained.
B. The currency and exchange rates of cash inflows and outflows.
C. The amount of cash flows which will be required or obtained.
D. The timing of all cash inflows and outflows.
E. The risk associated with the expected cash inflows.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

191. Stockholders elect:
A. The Chief Executive Officer.
B. The Corporate Directors.
C. The Chairman of the Board.
D. The President.
E. All senior managers.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

192. The ultimate responsibility for a corporation rests with:
A. The Chairman of the Board.
B. The Board of Directors.
C. The Chief Operations Officer.
D. The stockholders.
E. The stakeholders.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

193. Which one of the following statements is correct concerning the organizational structure of a corporation?
A. The vice president of finance reports to the chairman of the board.
B. The chief executive officer reports to the board of directors.
C. The controller reports to the president.
D. The treasurer reports to the chief executive officer.
E. The chief operations officer reports to the vice president of production.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

194. Which one of the following correctly defines the chain of command in a typical corporate organizational structure?
A. The vice president of finance reports to the chairman of the board.
B. The chief executive officer reports to the board of directors.
C. The controller reports to the president.
D. The treasurer reports to the chief executive officer.
E. The chief operations officer reports to the vice president of production.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager

195. Tasks related to tax management, cost accounting, financial accounting, and data processing are the responsibility of which corporate officer?
A. The Corporate Treasurer.
B. The Board of Directors.
C. The Corporate Controller.
D. The Chairman of the Board.
E. The Vice President of Production.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

196. Which of the following is an advantage of ownership of a corporation compared to that of a sole proprietorship?
A. The owners of the corporation have unlimited liability for the firm's debts.
B. It is the simplest to start.
C. The corporation has an unlimited life.
D. Dividends received by the corporation's shareholders are tax-exempt.
E. It is more difficult to transfer ownership in a corporation.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship
Topic: 01-08 Corporation

197. Which of the following is a true statement concerning corporations?
A. The equity that can be raised by the corporation is limited to the current shareholders' personal wealth.
B. The life of the corporation is unlimited.
C. The corporation has limited liability for business debts.
D. When dividends are paid, corporate profits are taxed once.
E. It is difficult to transfer ownership of corporate shares.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

198. Double taxation refers to which of the following scenarios?
A. Both bondholders and shareholders must pay taxes.
B. The corporation pays taxes on earnings, and creditors pay taxes on interest received.
C. The corporation pays taxes on its earnings, and shareholders pay taxes on dividends.
D. The corporation pays taxes on revenues and expenses.
E. The corporation pays taxes on revenues and earnings.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

199. Which of the following is not a capital budgeting question?
A. The choice of which long-term assets to purchase.
B. What type of business a firm wants to operate.
C. The dollar obtained by putting long-term assets to use.
D. The percentage return obtained by putting long-term assets to use.
E. Credit policy to provide.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

200. Which one of the following statements concerning stock exchanges is correct?
A. The NASDAQ has more listed stocks than NYSE.
B. The TSX is primarily a dealer market.
C. The exchange with the strictest listing requirements is NASDAQ.
D. Some large companies are listed on NASDAQ.
E. Most debt securities are traded on the TSX.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

201. Trace the passage of cash from the financial markets to the firm and from the firm back to the financial markets.
A. 1. Cash flows to the firm from the financial market. 2. The firm invests the cash in current and fixed assets. 3. These assets generate cash. 4. Corporate taxes are paid. 5. Cash flow is reinvested in the firm. 6. The rest goes back to the financial markets as cash paid to creditors and shareholders.
B. 1. The firm invests the cash in current and fixed assets. 2. Cash flows to the firm from the financial market. 3. These assets generate cash. 4. Corporate taxes are paid. 5. Cash flow is reinvested in the firm. 6. The rest goes back to the financial markets as cash paid to creditors and shareholders.
C. 1. The firm invests the cash in current and fixed assets. 2. These assets generate cash. 3. Cash flows to the firm from the financial market. 4. Corporate taxes are paid. 5. Cash flow is reinvested in the firm. 6. The rest goes back to the financial markets as cash paid to creditors and shareholders.
D. 1. The firm invests the cash in current and fixed assets. 2. These assets generate cash. 3. The rest goes back to the financial markets as cash paid to creditors and shareholders. 4. Cash flows to the firm from the financial market. 5. Corporate taxes are paid. 6. Cash flow is reinvested in the firm.
E. 1. The firm invests the cash in current and fixed assets. 2. Corporate taxes are paid. 3. These assets generate cash. 4. Cash flows to the firm from the financial market. 5. Cash flow is reinvested in the firm. 6. The rest goes back to the financial markets as cash paid to creditors and shareholders.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Hard
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-21 Cash Flows to and from the Firm

202. Which of the following is NOT a general criterion that must be met for a firm to be listed on the TSX?
A. The firm must have a minimum number of shareholders owning at least 300 shares.
B. The firm must have a minimum number of shares outstanding.
C. The firm must have a market value of at least $4 million.
D. The firm must have a minimum number of directors.
E. The firm must have a minimum amount of assets.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

203. The total market value of the firm's equity is determined by ________________.
A. the corporate treasurer
B. the firm's financial manager
C. the firm's stakeholders
D. the firm's stockholders
E. regulatory authorities

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

204. The secondary market is:
A. The market for the original sale of securities by governments and corporations.
B. The market in which dealers buy and sell for themselves, at their own risk.
C. The market in which purchasers are matched with those who wish to sell.
D. A market which has no central location.
E. The market in which securities are bought and sold after original sale.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

205. The term capital structure describes:
A. The mixture of debt and equity a firm uses to finance its operations.
B. The mixture of long-term investments a firm has made.
C. The mix of preferred stock and common stock that makes up the equity account of a firm.
D. The firm's short-term assets and short-term liabilities.
E. The mixture of short-term liabilities a firm uses to finance its short-term assets.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

206. Capital structure refers to:
A. The amount of inventory held.
B. The amount of cash on hand.
C. The mixture of debt and equity.
D. The accounts receivable policy.
E. The management of long-term investments.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

207. Working capital management refers to:
A. The types of stock issued.
B. The amount of long-term debt.
C. The mixture of debt and equity.
D. The types of long-term investments made.
E. The levels of cash and inventory held.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

208. Which of the following statements concerning auction markets is false?
A. The OTC is an auction market.
B. The TSX is an auction market.
C. The NYSE is an auction market.
D. Auction markets have a physical location.
E. A market where buyers specify the highest price they are willing to pay and sellers indicate the lowest price they are willing to accept.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

209. Which of the following statements concerning dealers is false?
A. Dealers usually buy and sell only for themselves.
B. Dealers accept the risks of owning shares of stock.
C. The OTC market is a dealer market.
D. Most debt securities trade in dealer markets.
E. The TSX and NYSE are dealer markets.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

210. Which one of the following statements is true concerning stock exchanges?
A. The Toronto Stock Exchange is the largest exchange in the world.
B. NASDAQ listed stocks trade more actively than those listed on the NYSE.
C. The OTC market is physically located in Toronto.
D. The Tokyo Stock Exchange is not a very actively traded upon exchange.
E. The total value of NASDAQ listed stocks is less than the total value of NYSE listed stocks.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

211. Working capital management refers specifically to:
A. Obtaining the necessary funds to finance a firm's long term activities.
B. The daily use of a firm's fixed assets to generate revenue.
C. The oversight of a firm's current accounts.
D. The management of a firm's loan accounts from financial institutions.
E. The utilization of a firm's assets daily.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

212. Which one of the following statements concerning a sole proprietorship is correct?
A. A sole proprietorship is the least common form of business ownership.
B. The profits of a sole proprietorship are taxed twice.
C. The owners of a sole proprietorship share profits as established by the partnership agreement.
D. The owner of a sole proprietorship may be forced to sell his/her personal assets to pay company debts.
E. A sole proprietorship is often structured as a limited liability company.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship

213. Which one of the following statements concerning a sole proprietorship is correct?
A. The life of the firm is limited to the life span of the owner.
B. The owner can generally raise large sums of capital quite easily.
C. The ownership of the firm is easy to transfer to another individual.
D. The company must pay separate taxes from those paid by the owner.
E. The legal costs to form a sole proprietorship are quite substantial.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship

214. The best definition of regulatory dialectic is:
A. The pressures government exerts on regulatory bodies.
B. The pressures financial institutions and regulatory bodies exert on each other.
C. The pressures regulatory bodies exert on corporations.
D. The pressures financial institutions exert on corporations.
E. The pressures regulatory bodies exert on investors.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-07 Trends in financial markets.
Topic: 01-25 Trends in Financial Markets and Financial Management

215. Which of the following markets is considered a dealer market?
A. The Toronto Stock Exchange.
B. The over-the-counter (OTC) Market.
C. The real estate market.
D. New York Stock Exchange.
E. The Ontario Securities Commission.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

216. The primary market includes:
A. The purchase and sale of shares of stock between two shareholders.
B. The sale of stock by a shareholder in the open market.
C. The sale of stock by a shareholder in an auction market.
D. The sale of new securities by a corporation for the first time to the general public.
E. The sale of stock by a shareholder in the OTC market.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

217. Which one of the following statements is correct concerning corporations?
A. The largest firms are usually corporations.
B. The majority of firms are corporations.
C. The stockholders are usually the managers of a corporation.
D. The ability of a corporation to raise capital is quite limited.
E. The income of a corporation is taxed as personal income of the stockholders

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

218. Which of the following does not assist in ensuring managers act in the best interest of owners?
A. A compensation package for managers that ties their salary to the firm's share price.
B. Managers are promoted only if the firm prospers.
C. The threat that if the firm does poorly, shareholders will use a proxy fight to replace the existing management.
D. There is a high degree of likelihood the firm will become a takeover candidate if the firm performs poorly.
E. A compensation package for managers that is all cash with no ties to performance.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

219. Which one of the following statements is correct concerning the TSX?
A. A firm is expected to have a market value for its publicly held shares of at least $4 million to be listed on the TSX.
B. The TSX is the largest dealer market for listed securities in Canada.
C. The TSX is the second largest stock exchange in the world.
D. Any corporation desiring to be listed on the TSX can do so.
E. The TSX is an over-the-counter exchange functioning as both a primary and a secondary market.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

220. What strategies do hedge funds employ to earn their returns?
A. Their strategies may include arbitrage, high levels of leverage, and active involvement in the derivatives market.
B. Their strategies may include indexing the returns of major stock exchanges in North America.
C. Their strategies may include indexing the returns of stock and bond markets in North America.
D. Their strategies may include indexing the returns of North American mutual funds.
E. Their strategies include indexing the returns of risk-free returns such as North American government bonds.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-06 Types of financial institutions.
Topic: 01-24 Financial Institutions

221. Financial managers should strive to maximize the current value per share of the existing stock because:
A. Doing so guarantees the company will grow in size at the maximum possible rate.
B. Doing so increases the salaries of all the employees.
C. They have been hired for the purpose of representing the interest of the current shareholders.
D. Doing so means the firm is growing in size faster than its competitors.
E. The managers often receive shares of stock as part of their compensation.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-03 The goal of financial management.
Topic: 01-13 The Goal of Financial Management

222. The Board of Directors of Beeline, Inc. has decided to base the salary of its financial manager entirely upon the market share of the firm. Accordingly,
A. The firm may incur some agency costs since the manager will be focused on the market share of the firm rather than acting to maximize earnings.
B. The financial manager will always act in the best interest of the shareholders since all agency costs have been eliminated through salary incentives.
C. This arrangement may be unnecessary, since the goal of the firm is to maximize earnings for shareholders, and that is most likely accomplished through larger market share.
D. The manager may not act to maximize the current value of the firm's stock, resulting in agency costs for the firm's stockholders.
E. The firm will incur some agency costs if the manager acts to maximize market share.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-16 Agency Relationships
Topic: 01-17 Management Goals

223. Which of the following does not persuade managers to work in the best interest of the stockholders?
A. Compensation based on the value of the stock.
B. Stock option plans.
C. Threat of a company takeover.
D. Threat of a proxy fight.
E. Purely cash compensation package.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-18 Do Managers Act in the Shareholders' Interests?

224. When a corporation issues additional shares of common stock to the general public, they do so:
A. In the primary market.
B. Through a dealer in the secondary market.
C. Through a broker in the secondary market.
D. Only through the OTC market.
E. Only through the private markets.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

225. What is not a working capital question that must be answered?
A. How much cash and inventory should be kept on hand?
B. Should we sell on credit?
C. To whom should credit be extended to?
D. Net present value (NPV) and internal rate of return (IRR) of a long-term project
E. Length of credit terms to provide

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

226. A financial manager of a corporation is considering different operating strategies for the coming year. From a financial management standpoint, which of the following would be her optimal strategy?
A. Undertake the plan that would reduce the overall riskiness of the firm.
B. Undertake the plan that would maximize the current stock price.
C. Undertake the plan that would result in the largest profits for the year.
D. Undertake the plan that would maximize her personal wealth.
E. Undertake the plan that would lead to the most stable stock price for the year.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-03 The goal of financial management.
Topic: 01-13 The Goal of Financial Management

227. When does the double taxation problem faced by corporations exist?
A. Whenever a corporation earns a profit, pays taxes on that profit, and then pays interest to its bondholders.
B. Whenever a corporation earns a profit, pays taxes on that profit, and then pays dividends to its stockholders who pay personal taxes.
C. Whenever a corporation earns a profit and pays taxes on that profit.
D. Whenever a corporation earns a profit, pays taxes on that profit, and then pays dividends to its tax-exempt shareholders.
E. Whenever stockholders are paid a dividend and are taxed on that dividend income.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-08 Corporation

228. Which of the following is NOT considered one of the basic questions of corporate finance?
A. What long-term investments should the firm choose?
B. At what rate of interest should a firm borrow?
C. Where will the firm get the long-term financing to pay for its investments?
D. What mixture of debt and equity should the firm use to fund its operations?
E. How should the firm manage its working capital, i.e., its everyday financial activities?

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-02 What Is Corporate Finance?

229. Which one of the following questions would most likely be the responsibility of the financial manager?
A. Which product markets should be expanded?
B. What price should be charged for a new product?
C. Which employees should work overtime?
D. How should the firm finance a new distribution center?
E. Where should a new store be located?

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-04 Financial Management Decisions

230. Which of the following is considered a "primary market" transaction?
A. You buy shares in the public offering of a start-up company in the computer industry.
B. Your mother sells you the shares she purchased in your uncle's latest business venture.
C. You buy shares in Apple from an online brokerage
D. You purchase call options issued by Ford Motor Company.
E. You purchase warrants issued by General Motors Corporation.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-23 Primary versus Secondary Markets

Short Answer Questions

231. Define the concept of a corporation, along with several advantages and disadvantages of conducting business as a corporation.

A corporation is a business created as a distinct legal operating unit that is owned by one or more individuals or entities. Advantages include: ownership can be easily transferred; life of a corporation is not limited to lives of owners or managers; a corporation has limited liability; the ability to raise and access large sums of capital in both debt and equity markets. Disadvantages include: double taxation; lenders view the limited liability as a disadvantage and require the owners of small corporations to make personal guarantees; more complex and expensive form of organization to establish.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-05 Forms of Business Organization
Topic: 01-08 Corporation

232. What items are included in the articles of incorporation?

The articles of incorporation must contain a number of things, including the corporation's name, its intended life (which can be forever), its business purpose, and the number of shares that can be issued.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-05 Forms of Business Organization
Topic: 01-08 Corporation

233. Provide several advantages of the corporate form of business ownership?

The advantages of the corporation include: limited liability for firm debt; Ability to raise capital; Unlimited firm life.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-05 Forms of Business Organization
Topic: 01-08 Corporation

234. Provide several disadvantages of a partnership?

Disadvantages of partnership include: limited life of the firm; personal liability for firm debt; lack of ability to transfer partnership interest.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-05 Forms of Business Organization
Topic: 01-07 Partnership

235. Provide several common characteristics between a sole proprietorship and a general partnership?

Common elements include: method of taxation; limited life of business entity; personal liability.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-05 Forms of Business Organization
Topic: 01-06 Sole Proprietorship
Topic: 01-07 Partnership

236. What aspects of cash flows is part of the financial manager's responsibility?

The financial manager is responsible for: the amount of the cash flow; timing of the cash flow; likelihood of the cash flow being received; possibility that only a portion of the expected cash flow will be received.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-03 The Financial Manager
Topic: 01-04 Financial Management Decisions

237. Elaborate on the financial management function. In particular, the inter-relationships between the CEO, COO and CFO. Expand on the CFO's responsibility from an accounting and finance perspective.

The financial management function is usually associated with a top officer of the firm, such as a vice president of finance or some other chief financial officer (CFO). The CFO reports to the president, who is the chief operating officer (COO) in charge of day-to-day operations. The COO reports to the chairman, who is usually chief executive officer (CEO). The CEO has overall responsibility to the board. The CFO coordinates the activities of the treasurer and the controller. The controller's office handles cost and financial accounting, tax payments, and management information systems. The treasurer's office is responsible for managing the firm's cash, its financial planning, and its capital expenditures.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-01 Corporate Finance and the Financial Manager
Topic: 01-03 The Financial Manager

238. What is a hedge fund and what strategies does it utilize? Who is it intended for?

Hedge funds are largely unregulated and privately managed investment funds catering to sophisticated investors, which look to earn high returns using aggressive financial strategies prohibited by mutual funds. These strategies may include arbitrage, high levels of leverage, and active involvement in the derivatives market.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 01-07 Trends in financial markets.
Topic: 01-25 Trends in Financial Markets and Financial Management

239. What is the difference between third and fourth markets?

A third market involves trading exchange-listed securities in OTC markets, while a fourth market trading involves institution-to-institution trading without using the services of brokers or dealers.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 01-07 Trends in financial markets.
Topic: 01-25 Trends in Financial Markets and Financial Management

240. How do chartered banks generate income?

Chartered banks generate income from the spread between interest paid on deposits and interest earned on loans, from selling life insurance through their branch networks, and from services provided to corporate clients such as bank guarantees.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-06 Types of financial institutions.
Topic: 01-24 Financial Institutions

241. What is the main drawback of the triple bottom line measure?

One problem with the triple bottom line is that the three separate measures cannot easily be added up. It is difficult to measure the planet and people accounts in the same terms as profits.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

242. What is the triple bottom line? What does it measure?

The triple bottom line consists of three Ps: profit, people and planet. It aims to measure the financial, social and environmental performance of the corporation over a period of time.

The triple bottom line suggests that firms should be focusing on three interdependent measures of success.

One is the traditional measure of corporate profit; the second is a measure of a firm's employees and a firm's responsibility throughout the organization. The third pertains to how environmentally responsible a firm has been.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Hard
Learning Objective: 01-03 The goal of financial management.
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

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

The three areas to be addressed are:

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

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Easy
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-01 Corporate Finance and the Financial Manager
Topic: 01-03 The Financial Manager

244. Why is the corporate form of business organization considered to be more important than sole proprietorships or partnerships?

The importance of the corporate form of organization lies in its advantages: ease of transferring ownership, the owners' limited liability for business debts, and unlimited life of the business.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-05 Forms of Business Organization

245. If the corporate form of business organization has so many advantages over the corporate form, why is it so common for small businesses to initially be formed as sole proprietorships?

A significant advantage of the sole proprietorship is that it is cheap and easy to form. If the sole proprietor has limited capital to start with, it may not be desirable to spend part of that capital forming a corporation. Also, limited liability for business debts may not be a significant advantage if the proprietor has limited capital, most of which is tied up in the business anyway. Finally, for a typical small business, the heart and soul of the business is the person who founded it, so the life of the business may effectively be limited to the life of the founder during its early years.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-06 Sole Proprietorship
Topic: 01-07 Partnership
Topic: 01-08 Corporation

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

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

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-03 The goal of financial management.
Topic: 01-03 The Financial Manager
Topic: 01-11 The Goal of Financial Management

247. Do you think agency problems arise in sole proprietorships and/or partnerships?

Agency conflicts typically arise when there is a separation of ownership and management of a business. In a sole proprietorship and a small partnership, such separation is not likely to exist to the degree it does in a corporation. However, there is still potential for agency conflicts. For example, as employees are hired to represent the firm, there is once again a separation of ownership and management.

Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: Medium
Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners.
Topic: 01-15 The Agency Problem and Control of the Corporation
Topic: 01-16 Agency Relationships

248. Assume for a moment that the stockholders in a corporation have unlimited liability for corporate debts. If so, what impact would this have on the functioning of primary and secondary markets for common stock?

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

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-20 Financial Markets and the Corporation

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

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

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 01-03 The goal of financial management.
Topic: 01-20 Financial Markets and the Corporation

250. One thing lenders sometimes require when lending money to a small corporation is an assignment of the common stock as collateral on the loan. Then, if the business fails to repay its loan, the ownership of the stock certificates can be transferred directly to the lender. Why might a lender want such an assignment? What advantage of the corporate form of organization comes into play here?

In the event of a loan default, a lender may wish to liquidate the business. Often it is time consuming and difficult to take title of all of the business assets individually. By taking control of the stock, the lender is able to sell the business simply by reselling the stock in the business. This illustrates once again the ease of transfer of ownership of a corporation.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-20 Financial Markets and the Corporation

251. Why might a corporation wish to list its shares on a national exchange such as the TSX as opposed to a regional exchange? How about being traded OTC?

Being listed on a regional exchange effectively limits the capital access for the business. Plus, there is a prestige factor in being listed on one of the national exchanges. There is still a prestige factor in moving from OTC to the TSX since the TSX has more restrictive membership requirements.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-05 The roles of financial institutions and markets.
Topic: 01-08 Corporation
Topic: 01-23 Primary versus Secondary Markets

252. Identify the two capital structure issues that financial managers must address and explain the effects and significance of these issues.

Financial managers must first determine which debt-equity mix is best for the firm. Secondly, financial managers must determine the least expensive sources of financing. These decisions will affect both the risk level and the value of the firm. These decisions are significant as they establish the long-term debt obligations of the firm. Should a firm assume too much debt, it could face bankruptcy if the future cash flows cannot support the debt load.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Hard
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-01 Corporate Finance and the Financial Manager

253. Explain the cash flow pattern between a firm and the financial markets.

A firm issues securities in the financial markets and receives cash in exchange. This cash is used to purchase assets that in turn generate cash flows. These cash flows are used to reinvest in additional firm assets, pay taxes, pay dividends, cover debt payments, and pay interest to the holders of the firm's securities.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.
Topic: 01-01 Corporate Finance and the Financial Manager

254. Describe the goal of financial management and give an example of a management compensation program which is designed to encourage managers to adhere to that goal.

The goal of financial management is to increase the value of the existing owners' equity. Stock options are designed to reward managers when the value of the stock rises.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 01-03 The goal of financial management.
Topic: 01-11 The Goal of Financial Management

255. Describe two types of business organizations in which you could obtain an ownership position while enjoying limited liability. Provide an example of a type of firm that you might find utilizing each business type.

The organizations include a corporation and a limited partnership. Firms which require large sums of external financing will commonly choose the corporate form. Real estate ventures often involve limited partnerships.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-07 Partnership
Topic: 01-08 Corporation

256. Explain how ethics can affect the value of a public corporation.

Student answers will vary but should explain that proper ethical behavior enhances the market perception of a firm, increases customer satisfaction, lowers agency costs, and in general, increases the market value of the firm, which is the goal of financial management.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 The financial implications of the different forms of business organization.
Topic: 01-15 The Agency Problem and Control of the Corporation
Topic: 01-16 Agency Relationships