**Chapter 01 Test Bank – Static Key**

1. As finance emerged as a new field, much emphasis was placed on mergers and acquisitions.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

2. Inflation is assumed to be a temporary problem that does not affect financial decisions.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Financial management decisions*

3. Financial capital is composed of long-term plant and equipment, as well as other tangible investments.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

4. Real capital is composed of long-term plant and equipment.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

5. During the 1930s, financial practice revolved around such topics as the preservation of capital, maintenance of liquidity, the reorganization of financially troubled corporations, and bankruptcy.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

6. In the mid 1950s, finance began to change to a more analytical, decision-oriented approach.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

7. Recently, the emphasis of financial management has been on the relationship between risk and return.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.*

*Topic: Introduction to corporate finance*

8. The first Nobel Prizes given to finance professors were for their contributions to capital structure theory and portfolio theories of risk and return.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

9. How investors handle risk is an important topic that usually only economists observe.

**FALSE**

Behavioral finance is something that the finance industry puts heavy emphasis on.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

10. Mortgage-backed securities were devalued by accounting standards because of the high credit ratings (AAA).

**FALSE**

These securities were devalued because borrowers defaulted on their loans and didn’t have the financial means to back up their loans in other ways.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

11. ”Credit default swaps" are one of several tools that Congress and the President of the United States have jointly developed to ease the financial crisis that began in 2008.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

12. The Dodd-Frank Act was created by Congress along with its goals and regulatory responsibility, but it is facilitated by various agencies.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

13. The Dodd-Frank Act contains the Volcker Rule, which encourages financial institutions to allow for more speculative investments for average investors.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Ethics, governance, and regulation*

14. The Dodd-Frank Act's oversight allowing regulation of banking fees and available products has been considered as not being in the best interests of a free market.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Ethics, governance, and regulation*

15. The Internet impacts e-commerce by creating a mechanism for improved communications between a business, its customers, and its suppliers.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

16. The Internet is responsible for many new business models.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

17. Businesses will increasingly rely on B2B Internet applications to speed up the cash flows through their firms.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

18. Sole proprietorship means single-person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

19. Profits of sole proprietorships are taxed at corporate tax rates.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

20. There is unlimited liability in a general partnership.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

21. A limited partnership limits the profits partners may receive.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Forms of business organization*

22. In terms of revenues and profits, the corporation is by far the most important form of business organization in the United States.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

23. As noted in *Finance in Action* initial public offerings have now increased because long-term results are favored by shareholders and institutional investors.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Initial public offerings*

24. Dividends paid to corporate stockholders have already been taxed once as corporate income.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

25. One advantage of the corporate form of organization is that income received by stockholders is not taxable since the corporation already paid taxes on the income distributed.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

26. A corporation must have more than 100 stockholders to qualify for Subchapter S designation.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Intermediate*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

27. Profits of a Subchapter S corporation are taxed at corporate tax rates.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

28. The formation of a Subchapter S corporation is a way to circumvent the double taxation of a small corporation.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

29. The formation of a Limited Liability Company (LLC) is a way to circumvent the double taxation of a small corporation.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

30. Corporate governance issues have become less important to the financial community during the first decade of the new millennium.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Ethics, governance, and regulation*

31. Agency theory examines the relationship between companies and their customers.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Agency costs and problems*

32. Institutional investors have had increasing influence over corporations with their ability to vote with large blocks of stock and replace poorly performing boards of directors.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

33. Agency theory assumes that corporate managers act to increase the wealth of corporate shareholders.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Agency costs and problems*

34. The Sarbanes-Oxley Act reduced agency conflicts by giving corporate managers greater flexibility to select their preferred candidates to the board of directors.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Ethics, governance, and regulation*

35. A major focus of the Sarbanes-Oxley Act is to make sure that publicly traded companies accurately present their assets, liabilities, and income in their financial statements.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Ethics, governance, and regulation*

36. The Sarbanes-Oxley Act is primarily intended to increase public scrutiny of private companies that had previously been exempt from many public disclosure requirements.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Ethics, governance, and regulation*

37. Timing is not a particularly important consideration in financial decisions.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Financial management decisions*

38. The higher the profit of a firm, the higher the value the firm is in the market.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

39. There are some serious problems with the financial goal of maximizing the earnings of the firm.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

40. Maximizing the earnings of the firm is the main goal of financial management.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

41. The ultimate measure of performance is not what the firm profits, but how the profits are valued by the investor.

**TRUE**

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

42. Because socially desirable goals can hinder profitability in many instances, managers should not try to operate under the assumption of wealth maximization.

**FALSE**

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

43. Insider trading involves the use of information not available to the general public to make profits from trading in a company's stock.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

44. If an investor hears of a large change that a company is going to make through a news article and reacts quicker than any other investor, it is considered insider trading.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

45. When an investor has the ability to control how the stock price changes, that is considered insider trading.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

46. Social responsibility and profit maximization are synonymous.

**FALSE**

*AACSB: Analytical Thinking*

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

47. Irrational exuberance is when companies have stock that is undervalued.

**FALSE**

*AACSB: Analytical Thinking*

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

48. Financial markets exist as a vast global network of individuals and financial institutions that may be lenders, borrowers, or owners of public companies worldwide.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Money and capital markets*

49. Money markets refer to those markets dealing with short-term securities having a life of one year or less.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Money and capital markets*

50. Money markets refer to markets where excess corporate cash is exchanged for foreign currencies that can earn a higher return than domestic money.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Money and capital markets*

51. Capital markets refer to those markets dealing with short-term securities that have a life of one year or less.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Money and capital markets*

52. The primary market includes the sale of securities by way of initial public offerings.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Primary and secondary markets*

53. When a company is looking to raise money through issuing more shares of stock, that is considered in the secondary market.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Primary and secondary markets*

54. High-quality initial public offerings are usually sold in a primary market, such as the New York Stock Exchange. However, low-quality stocks must usually be sold in secondary markets, such as NASDAQ.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Primary and secondary markets*

55. Although NASDAQ is a secondary market, some of the firms traded there, such as Microsoft, are large enough to move to the primary market if they so desire.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Primary and secondary markets*

56. The secondary market characteristically has had stable prices over the past 20 years.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Primary and secondary markets*

57. In the United States, stocks sold on either the New York Stock Exchange or NASDAQ are considered sold in the primary market.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Primary and secondary markets*

58. New issues are sold in the secondary market.

**FALSE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Primary and secondary markets*

59. Existing securities are traded in the secondary market.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Primary and secondary markets*

60. Many companies have cross-listed their stock on multiple international stock exchanges and more than several hundred foreign companies have listed their shares on the New York Stock Exchange.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Stock exchanges*

61. Higher returns always induce that stockholders should invest in a company.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.*

*Topic: Risk and return relationship*

62. Higher return means that the public company has lower risk.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.*

*Topic: Risk and return relationship*

63. Social responsibility is an expense and thus should be avoided by financial managers because it will lead to loss of income.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.*

*Topic: Ethics, governance, and regulation*

64. Financial management requires both short-term activities as well as long-term planning such as raising funds.

**TRUE**

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Financial management decisions*

65. One of the primary disadvantages of maximizing shareholder value is that it only provides a short-term perspective.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

66. If a company has a written code of ethics, they will generally avoid ethical problems.

**TRUE**

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Evaluate*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Ethics, governance, and regulation*

67. Risk management will be an important factor over the next decade.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Risk management</i*

68. With the creation of Internet trading, trading through brokers became less profitable for investors mainly because of the higher fees.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-06 The financial turmoil that roiled the markets between 2001 and 2012 resulted in more regulatory oversight of the financial markets.*

69. Which of the following did not contribute to the financial crisis?

A. Solid credit ratings from the ratings agencies

B. The extension of credit to high-risk borrowers

**C.** The merger of JPMorgan Chase and Bear Stearns

D. All of the options contributed to the financial crisis

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Historical performance*

70. Credit default swaps are

**A.** an insurance product designed to protect financial institutions from customers who default on their loans.

B. securities with a maturity of less than one year.

C. the result of a leveling off or slowing down of stock price increases.

D. market trades in previously issued securities.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Hedging with swap contracts*

71. What should be the primary goal of financial management?

A. Increased earnings

B. Maximizing cash flow

**C.** Maximizing shareholder wealth

D. Minimizing risk of the firm

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

72. In the past, the study of finance has included

A. mergers and acquisitions.

B. raising capital.

C. bankruptcy.

**D.** All of the options

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

73. Professor Merton Miller received the Nobel Prize in Economics for his work on

A. dividend policy.

B. investment theory.

C. working capital management.

**D.** capital structure theory.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Intermediate*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

74. Professors Harry Markowitz and William Sharpe received their Nobel Prize in Economics for their contributions to the

A. options pricing model.

B. theories of working capital management.

**C.** theories of portfolio based management and the risk along with return on securities.

D. theories of international capital budgeting.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Intermediate*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.*

*Topic: Introduction to corporate finance*

75. Behavioral finance is the study of

A. how investors react to accounting-based profit fluctuations.

B. how investors react to interest rates and foreign currency fluctuations

**C.** how investors react to certain ways to diversify a portfolio.

D. how investors react to the amount of risk versus the amount of return in securities.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Intermediate*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

76. Which of the following is NOT addressed by the Dodd-Frank Act?

A. Liquidation of non-bank financial companies such as insurance companies.

B. Identifies systematic risk of U.S. financial system.

**C.** Written certifications of financial statements by the CEO and CFO.

D. Registration of hedge funds with the SEC.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Intermediate*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Ethics, governance, and regulation*

77. Proper risk-return management means that

A. the firm should take as few risks as possible.

**B.** the firm must determine an appropriate trade-off between risk and return.

C. the firm should earn the highest return possible.

D. the firm should value future profits more highly than current profits.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.*

*Topic: Risk and return relationship*

78. One of the major disadvantages of a sole proprietorship is

**A.** that there is unlimited liability to the owner.

B. the simplicity of decision making.

C. high organizational costs.

D. high operating costs.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

79. One of the major advantages of a sole proprietorship is

A. that the owner has limited liability.

B. that stock in the proprietorship can be easily transferred.

C. that it is exempt from many tax rules that would otherwise apply when employees are hired by the firm.

**D.** low operating costs.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

80. The partnership form of an organization

**A.** avoids the double taxation of earnings and dividends found in the corporate form of organization.

B. usually provides limited liability to the partners.

C. has unlimited life.

D. simplifies decision making.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

81. A corporation is

A. owned by stockholders who enjoy the privilege of limited liability.

B. easily divisible between owners.

C. a separate legal entity with unlimited life.

**D.** All of the above.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

82. With an S corporation

**A.** income is taxed as direct income to stockholders.

B. stockholders have the same liability as members of a partnership.

C. the number of stockholders is unlimited.

D. the life of the corporation is limited.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Intermediate*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

83. An S corporation

A. is similar to a partnership in that it carries unlimited liability.

B. is a separate legal entity that is treated like a normal corporation.

**C.** has all the organizational benefits of a corporation and its income is only taxed once.

D. All of the options.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Intermediate*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Forms of business organization*

84. Corporate governance is the

**A.** relationship and exercise of oversight by the board of directors of the company.

B. relationship between the chief financial officer (CFO) and institutional investors.

C. operation of a company by the chief executive officer (CEO) and other senior executives on the management team.

D. governance of the company by the board of directors with a focus on pleasing management.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Ethics, governance, and regulation*

85. Many companies such as Tyco, Enron, and WorldCom that suffered financial distress in the late 1990s and early 2000s

A. committed fraud.

B. had failed corporate governance oversight.

C. went bankrupt.

**D.** All of the options are true.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Ethics, governance, and regulation*

86. Agency theory examines the relationship between the

A. shareholders of the firm and the firm's investment banker.

**B.** owners of the firm and the managers of the firm.

C. board of directors and large institutional investors.

D. shareholders and the firm's transfer agent.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Agency costs and problems*

87. Agency theory would imply that conflicts are more likely to occur between management and shareholders when

A. the company is owned and operated by the same person.

B. management acts in the best interests of maximizing shareholder wealth.

**C.** the chairman of the board of directors is also the chief executive officer (CEO).

D. the board of directors exerts strong and involved oversight of management.

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Agency costs and problems*

88. Agency theory deals with the issue of

A. when to hire an agent to represent the firm in negotiations.

B. the legal liabilities of a firm if an employee, acting as the firm's agent, injures someone.

C. the limitations placed on an employee acting as the firm's agent to obligate or bind the firm.

**D.** the conflicts that can arise between the viewpoints and motivations of a firm's owners and managers.

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Challenge*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Agency costs and problems*

89. Agency problems are least likely to arise in which organizational form?

**A.** Sole proprietorship

B. Limited partnership

C. Corporation

D. Subchapter S corporation

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-02 A firm can have many different forms of organization.*

*Topic: Agency costs and problems*

90. Institutional investors are important in today's business world because

A. as large investors, they have more say in how businesses are managed.

B. they have a fiduciary responsibility to the workers and investors that they represent to see that the firms they own are managed in an ethical way.

C. as a group they can vote large blocks of stock for the election of board members.

**D.** All of the options

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Introduction to corporate finance*

91. The increasing percentage ownership of public corporations by institutional investors has

A. had no effect on corporate management.

B. created higher returns for the stock market in general.

**C.** created more pressure on public companies to manage their firms more efficiently.

D. taken away the voice of the individual investor.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Introduction to corporate finance*

92. The Sarbanes-Oxley Act was passed in an effort to

A. protect small business from large corporations dominating the market.

B. ensure that partnerships divide profits among partners in a fair manner.

C. guarantee that outside auditors can control corporate accounting practices.

**D.** control corrupt corporate financial behavior.

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Ethics, governance, and regulation*

93. The Sarbanes-Oxley Act set up the Public Company Accounting Oversight Board with the responsibility for all of the following except

A. internal controls within companies.

B. controlling the quality of audits.

**C.** certifying the competence of financial executives.

D. setting rules and standards for the independence of auditors.

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Ethics, governance, and regulation*

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

A. it fails to consider the timing when shareholders want increased earnings and may instead consider the manager’s own goals.

B. increased earnings may be accompanied by unacceptably higher levels of risk.

C. earnings are subjective; they can be defined in various ways such as accounting or economic earnings.

**D.** All of the options are true.

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

95. Maximization of shareholder wealth is a concept in which

A. increased earnings is of primary importance.

B. profits are maximized on an annual basis.

C. virtually all earnings are paid as dividends to common stockholders.

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

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

96. Which of the following is not a true statement about the goal of maximizing shareholder wealth?

A. It takes into account the timing of cash-flows.

**B.** It is a short-run point of view.

C. It considers risk as a factor.

D. None of the options is a false statement.

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Goal of financial management*

97. As mergers, acquisitions, and restructuring have increased in importance, agency theory has become more important in assessing whether

A. a stock repurchase should be undertaken.

**B.** shareholder goals are truly being achieved by managers in the long run.

C. managers are actually agents or only employees of the firm.

D. managers are owners of the company and act the same with the same interests.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Evaluate*

*Difficulty: Challenge*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Agency costs and problems*

98. Insider trading occurs when

**A.** someone has information not available to the public which they use to profit from trading in stocks.

B. corporate officers buy stock in their company.

C. lawyers, investment bankers, and others buy common stock in companies represented by their firms.

D. any stock transaction that violates the Federal Trade Commissions restrictions.

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Introduction to corporate finance*

99. The major difficulty in most insider-trading cases has been

A. that lenient judges have simply released the guilty individuals.

B. that insider trading, even though illegal, actually serves a beneficial economic and financial purpose.

**C.** that inside trades have not been legally well-defined.

D. that it is hard to figure out which owner(s) benefited from the trade.

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Challenge*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Introduction to corporate finance*

100. Money markets include which of the following securities? (this is a question that should be listed in chapter 7 rather than chapter 1). Instead see the new question below.

A. Common stock and corporate bonds.

**B.** Treasury bills and commercial paper.

C. Certificates of deposit and preferred stock.

D. All of the options

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Money and capital markets*

101. What is the major difference between money markets and capital markets?

A. One is more domestic while the other is more international.

**B.** One includes stock while the other includes loans.

C. The size of the profit or return on the market.

D. The timing of how long the security will be held onto.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Money and capital markets*

102. Capital markets do not include which of the following securities?

A. Common stock

**B.** Commercial paper

C. Government bonds

D. Preferred stock

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Intermediate*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Money and capital markets*

103. When a corporation uses the financial markets to raise new funds, the sale of securities is made in the

**A.** primary market.

B. secondary market.

C. online market.

D. third market.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Primary and secondary markets*

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

A. to pay a higher interest rate than its competitors.

B. a lower relative stock price than its competitors.

C. a higher cost of funds than its competitors.

**D.** All of the options.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Evaluate*

*Difficulty: Intermediate*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Risk and return relationship*

105. What is capital as defined in the financial industry?

**A.** The structure of the company

B. The sales price of stock

C. Profits

D. Money

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Evaluate*

*Difficulty: Intermediate*

*Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas.*

*Topic: Introduction to corporate finance*

106. The financial markets allocate capital to corporations by

**A.** reflecting expectations of the market participants in the price of the corporation's stock.

B. requiring higher returns from companies with lower risk than their competitors.

C. rewarding companies with expected high returns with lower relative stock prices.

D. relying on the opinion of investment bankers.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Evaluate*

*Difficulty: Intermediate*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Money and capital markets*

107. Corporate restructuring can be a result of more institutional ownership. Restructuring can cause

A. changes in the amount of assets versus the amount of liabilities of the firm.

B. the sale of low-profit margin divisions.

C. the removal of current management and/or large reductions in the workforce.

**D.** All of the options.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Introduction to corporate finance*

108. A corporate restructuring can result in

A. changes in the capital structure.

B. selling of low-profit margin divisions.

C. the board of directors exercising control of the company’s major decisions.

**D.** All of the options are true.

*AACSB: Reflective Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: Intermediate*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Introduction to corporate finance*

109. Which of the following is not an example of restructuring?

A. Increase or decrease the amount of common stock.

**B.** Eliminating profitable but unrelated divisions.

C. Merging with companies in related industries.

D. Divesting of an unprofitable division.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Introduction to corporate finance*

110. Future financial managers will need to understand

A. international cash flows.

B. computerized funds transfers.

C. international currency hedging strategies.

**D.** All of the options are true.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Evaluate*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Introduction to corporate finance*

111. The increase in the internationalization of financial markets has led to

A. companies searching the global financial markets for low-cost funds.

B. an increase in American Depository Receipts (ADRs) on the New York Stock Exchange.

C. an increase in debt obligations denominated in foreign currency on U.S. corporate balance sheets.

**D.** All of the options are true.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Introduction to corporate finance*

112. The internationalization of the financial markets has

**A.** allowed firms such as McDonald's to raise capital around the world.

B. raised the cost of capital.

C. forced companies to price everything in U.S. dollars.

D. All of the options are true.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Money and capital markets*

113. The Internet has affected the financial markets by

A. creating more competition between markets.

B. pushing the cost of trading down.

C. forcing brokerage companies to consolidate.

**D.** All of the options are true.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Basic*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Money and capital markets*

114. Increased productivity due to technology has

A. increased corporations' reliance on debt for capital expansion needs.

B. created larger asset values on the firm's historical balance sheet.

C. made it cheaper (in terms of interest costs and timing of when money is transferred) for firms to borrow money.

**D.** helped to keep corporate costs in check.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds.*

*Topic: Introduction to corporate finance*

115. Companies that perform well

A. can sell their stock for a lower price.

B. can minimize dilution when issuing new shares.

C. can issue debt at a lower interest rate.

**D.** can minimize dilution when issuing new shares and can issue debt at a lower interest rate.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Raising capital*

116. The entity that is responsible for establishing the allocation and cost of capital is/are

A. the corporation.

B. the economy.

**C.** investors.

D. customers.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders.*

*Topic: Money and capital markets*

117. The benefits of social responsibility often include

**A.** a better reputation.

B. higher short-term earnings.

C. lower expenses.

D. None of the options.

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-06 The financial turmoil that roiled the markets between 2001 and 2012 resulted in more regulatory oversight of the financial markets.*

*Topic: Ethics, governance, and regulation*

118. Who is accountable for social responsibility within a firm?

**A.** The board of directors

B. Management

C. Investors

D. The financial market.

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: Intermediate*

*Learning Objective: 01-06 The financial turmoil that roiled the markets between 2001 and 2012 resulted in more regulatory oversight of the financial markets.*

*Topic: Ethics, governance, and regulation*

119. Regarding risk levels, financial managers should

A. pursue higher-risk projects because they increase value.

B. avoid higher-risk projects because they destroy value.

C. focus primarily on market fluctuations.

**D.** evaluate investors' desire for risk.

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: Intermediate*

*Learning Objective: 01-03 The relationship of risk to return is a central focus of finance.*

*Topic: Risk and return relationship*

**Chapter 01 Test Bank - Static Summary**

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| --- | --- |
| *Category* | *# of Questions* |
| AACSB: Analytical Thinking | 98 |
| AACSB: Ethics | 34 |
| AACSB: Reflective Thinking | 110 |
| Accessibility: Keyboard Navigation | 238 |
| Blooms: Analyze | 2 |
| Blooms: Apply | 6 |
| Blooms: Evaluate | 12 |
| Blooms: Remember | 114 |
| Blooms: Understand | 104 |
| Difficulty: Basic | 140 |
| Difficulty: Challenge | 6 |
| Difficulty: Intermediate | 92 |
| Learning Objective: 01-01 The field of finance integrates concepts from economics, accounting, and a number of other areas. | 54 |
| Learning Objective: 01-02 A firm can have many different forms of organization. | 36 |
| Learning Objective: 01-03 The relationship of risk to return is a central focus of finance. | 14 |
| Learning Objective: 01-04 The primary goal of financial managers is to maximize the wealth of the shareholders. | 76 |
| Learning Objective: 01-05 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds. | 56 |
| Learning Objective: 01-06 The financial turmoil that roiled the markets between 2001 and 2012 resulted in more regulatory oversight of the financial markets. | 6 |
| Topic: Agency costs and problems | 14 |
| Topic: Ethics, governance, and regulation | 30 |
| Topic: Financial management decisions | 6 |
| Topic: Forms of business organization | 34 |
| Topic: Goal of financial management | 32 |
| Topic: Hedging with swap contracts | 2 |
| Topic: Historical performance | 2 |
| Topic: Initial public offerings | 2 |
| Topic: Introduction to corporate finance | 58 |
| Topic: Money and capital markets | 22 |
| Topic: Primary and secondary markets | 18 |
| Topic: Raising capital | 2 |
| Topic: Risk and return relationship | 10 |
| Topic: Risk management | 2 |
| Topic: Stock exchanges | 2 |