Chapter 01 - Test Bank - Static

*Student: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

1. Working capital management includes making decisions about how much cash and inventory to keep on hand.

TRUE FALSE

2. A financial manager must be certain about future cash flows when making investment decisions.

TRUE FALSE

3. Management may be tempted to make decisions that benefit themselves rather than the shareholders they represent. Management compensation, however, can be structured to better align management interests with shareholder interests.

TRUE FALSE

4. Who makes the financial decisions for a corporation?

A. the shareholders

B. external stakeholders

C. management

D. hedge fund managers

5. Which of the following is part of the investment decision?

A. what dividend the firm should pay

B. what assets the firm should purchase

C. how the firm should fund asset purchases

D. how much cash the firm should hold

6. As a financial manager should you be concerned with how to finance the purchase of a new factory?

A. no

B. yes, but only if we already have sufficient cash

C. no, unless we need to borrow the money

D. yes, we should decide how it is paid for

7. A business created as a distinct legal entity composed of one or more individuals or entities is known as a:

A. sole proprietorship

B. partnership

C. joint venture

D. company

8. The primary goal of financial management is to:

A. maximise current sales

B. maximise the value of shares

C. minimise costs

D. maximise market share

9. The difference between the total value of assets and the total value of liabilities is the:

A. net cash flows

B. net working capital

C. shareholders' equity

D. gross profit

10. A debt that is not due in the coming year is classified as a(n):

A. indirect liability

B. direct liability

C. non-current liability

D. current liability

11. Under sole proprietorship, the owner has \_\_\_\_\_\_\_\_ for business debts.

A. no responsibility

B. unlimited liability

C. no liability

D. limited personal liability

12. Under a partnership, the partners have \_\_\_\_\_\_\_\_ for partnership debts.

A. limited liability

B. unlimited liability

C. no liability

D. limited personal liability

13. Forming a company involves preparing a(n):

A. deed

B. agreement

C. constitution

D. ownership agreement

14. Assets are classified as:

A. intangible or non-current

B. current or non-current

C. cash or accounts receivable

D. direct or indirect

15. The concept of 'primary market' refers to the:

A. original sale of securities by governments

B. original sale of securities by companies

C. securities bought and sold after the original sale

D. both original sale of securities by governments and original sale of securities by companies

16. \_\_\_\_\_\_\_\_ states that in a perfect capital market, it is possible to separate the firm's investment decisions from the owners' consumption decisions.

A. Arrow's impossibility theorem

B. Fisher's separation theorem

C. two period perfect certainty model

D. the utility curves of investors

17. Under the assumptions of the perfect certainty model:

A. a firm's future cash flows are known exactly

B. the market rate of interest is same for all participants

C. both a firm's future cash flows are known exactly, and the market rate of interest is the same for all participants

D. none of the given answers

18. The assumption of rational investors assumes that:

A. all investors are wealth maximisers

B. all investors are utility minimisers

C. all investors are utility maximisers

D. all investors are utility or wealth maximisers

19. Capital structure is:

A. the mix of debt and equity maintained by a firm

B. the mix of short-term debt and assets held by a firm

C. the mix of long-term debt and assets held by a firm

D. the mix of dividends and debt maintained by a firm

20. The process of planning and managing a firm's investment in non-current assets is known as:

A. working capital management

B. financing decision

C. capital budgeting

D. earnings decision

21. Evaluating the size, timing and risk of future cash flows is the essence of:

A. working capital management

B. profit maximisation

C. capital budgeting

D. both profit maximisation and capital budgeting

22. The difference between a firm's current assets and current liabilities is called:

A. accounting profits

B. excess profits

C. net working capital

D. both accounting profits and net working capital

23. The money market is a(n) \_\_\_\_\_\_\_\_.

A. long-term market

B. auction market

C. short-term market where short-term debt securities are traded

D. none of the given answers

24. The relationship between shareholders and management is called:

A. an agency relationship

B. a proxy relationship

C. a managerial relationship

D. both an agency relationship and an agency problem

25. \_\_\_\_\_\_\_\_ are financial markets where short-term debt securities are bought and sold.

A. money markets

B. capital markets

C. primary markets

D. secondary markets

26. Which of the following would be considered a current asset on a firm's balance sheet?

A. accounts payable

B. inventory

C. plant and machinery

D. both accounts payable and inventory

27. The possibility of conflict between shareholders and management of the firm is called:

A. corporate breakdown

B. an agency problem

C. management breakdown

D. legal liability

28. Agency costs refer to:

A. the total dividends paid to shareholders over a period of 10 years

B. the total interest paid to bondholders over a period of 10 years

C. both the total dividends paid to shareholders over a period of 10 years, and the total interest paid to bondholders over a period of 10 years

D. the costs of the conflict of interest between shareholders and management

29. A stakeholder is:

A. a proxy vote made at a shareholders meeting

B. a shareholder of a firm

C. a debt-holder of a firm

D. someone other than a shareholder or debt-holder who potentially has a claim on a firm

30. Long-term debt and equity securities are bought and sold in:

A. money markets

B. capital markets

C. primary markets

D. secondary markets

31. Commercial paper or bills are examples of:

A. money market instruments

B. capital market instruments

C. hybrid market instruments

D. long-term debt securities

32. The total market value of a publicly-listed firm's equity is determined by:

A. the firm's financial officer

B. the firm's board of directors

C. the firm's underwriters

D. the investors in the stock market

33. The \_\_\_\_\_\_\_\_ market provides the means for transferring ownership of corporate securities from one investor to another.

A. dealer

B. auction

C. primary

D. secondary

34. Until October 1987, all stock exchange transactions were conducted using the \_\_\_\_\_\_\_\_\_\_ on the trading floor.

A. dealer market system

B. auction market system

C. open outcry system

D. primary market system

35. By law, public offerings of debt and equity to the public must be accompanied by a \_\_\_\_\_\_\_\_, which must be lodged with ASIC.

A. balance sheet

B. statement of capital structure

C. statement of cash flows

D. prospectus

36. Which of the following is a disadvantage of partnerships?

A. limited life of the business

B. they involve lots of agency problems

C. they are difficult to set up

D. none of the given answers

37. Indirect agency costs include:

A. management buying a new company car that is not required

B. management deciding to fly first class rather than economy class

C. having to pay external auditors

D. lost opportunity due to management not pursuing a value creating investment

38. Underperforming management may be replaced by:

A. a takeover

B. a proxy fight

C. either a takeover or a proxy fight

D. neither a takeover nor a proxy fight

39. Current assets include:

A. cash, inventory, and accounts receivable

B. cash, inventory, and intangibles

C. cash, accounts receivable, and intangibles

D. inventory, accounts receivable, and intangibles

40. Accounting income or earnings:

A. is always higher than cash flow

B. is always lower than cash flow

C. is the same as cash flow

D. can be very different from cash flow

41. Which of the following does working capital management NOT involve?

A. deciding how much inventory to hold

B. deciding whether to reduce the dividend

C. altering the terms of credit sales

D. altering the criteria regarding who to extend sales to

42. The assumptions of the two-period perfect certainty model are:

A. perfect certainty, perfect capital markets, and rational investors

B. perfect uncertainty, imperfect capital markets, and irrational investors

C. perfect certainty, imperfect capital markets, and rational investors

D. perfect certainty, perfect capital markets, and irrational investors

43. In a world with perfect capital markets and perfect certainty, it is:

A. only the financing decision that affects firm value

B. only the dividend decision that affects firm value

C. only the investment decision that affects firm value

D. none of the given answers

44. In a world with perfect capital markets and uncertainty, it is:

A. only the financing decision that affects firm value

B. only the dividend decision that affects firm value

C. only the investment decision that affects firm value

D. none of the given answers

45. According to Clifford W Smith Jr:

A. markets impose costs on companies that engage in ethical behaviour

B. market forces provide incentives for ethical behaviour

C. markets impose costs on companies that engage in unethical behaviour, and market forces provide incentives for ethical behaviour

D. markets do not impose costs on companies that engage in unethical behaviour, and market forces do not provide incentives for ethical behaviour

46. A firm that pays a dividend:

A. should grow more quickly than an identical firm that pays no dividend

B. should grow more slowly than an identical firm that pays no dividend

C. should grow at the same rate as an identical firm that pays no dividend

D. none of the given answers

47. Fisher's separation theorem states that it is possible to separate the investment decisions of the firm from the consumption decisions of the owners.

TRUE FALSE

48. A perfect capital market implies that the borrowing and lending rates are the same.

TRUE FALSE

49. Under the two-period perfect certainty model investors allocate their resources through time according to two criteria.

TRUE FALSE

50. The certainty model is restricted to a single interval of time of specified length.

TRUE FALSE

51. Under the two-period perfect certainty model, both the financing and the investment decisions affect the firm value.

TRUE FALSE

52. Of the three decisions facing the financial manager of the firm, it's only the investment decision that affects firm value.

TRUE FALSE

53. If used correctly, the NPV and IRR rules give the same accept / reject decisions for a project.

TRUE FALSE

54. Arrow's Impossibility Theorem states that when there is an imperfect market there is no longer a unique production decision that would be made by any current owner regardless of the preferences of the owner.

TRUE FALSE

55. When a public offering is underwritten, an underwriter or syndicate contracts to purchase from the firm those securities that remain unsold to the public.

TRUE FALSE

56. The trading floors in the Australian Stock Exchange were closed in October 1990 and all shares are now traded on an automated trading system.

TRUE FALSE

57. A financial manager has to consider the size, timing and risk of future cash flows when making investment decisions.

TRUE FALSE

58. Which of the following is not part of the investment decision?

A. what projects to undertake

B. how to finance the investments

C. what fixed assets to invest in

D. what working capital investments to undertake

59. Under partnership, the partners generally have \_\_\_\_\_\_\_\_ for business debts.

A. no responsibility

B. unlimited liability

C. no liability

D. limited personal liability

60. Which of the following is a primary market transaction?

A. directors selling shares on the ASX

B. institutional investors trading shares on the ASX

C. securities bought and sold after the original sale

D. a company undertaking an issue of securities to the public

61. Which of the following would be considered a current liability on a firm's balance sheet?

A. notes payable

B. inventory

C. plant and machinery

D. both notes payable and inventory

62. A firm&rsquo;s choice of capital structure involves:

A. the choice of current and non-current assets

B. the mix of short-term debt and assets held by a firm

C. the mix of debt and equity

D. the mix of dividends and debt maintained by a firm

63. Which of the following is considered to be the most appropriate goal for a corporate firm?

A. maximising sales revenue

B. maximising current share price

C. maximising dividends paid to shareholders

D. minimising cost of operations

64. Of the three decisions facing the financial manager of the firm, it's only the dividend decision that affects firm value.

TRUE FALSE

65. The NPV and IRR rules always lead to conflict in choosing projects.

TRUE FALSE

66. Arrow's Impossibility Theorem states that when there is an imperfect market there is always a unique production decision that would be made by any current owner, regardless of the preferences of the owner.

TRUE FALSE

67. When a public offering of shares is undertaken, there is always a guarantee that all shares on offer are sold to the public.

TRUE FALSE

Chapter 01 - Test Bank - Static Key

1. Working capital management includes making decisions about how much cash and inventory to keep on hand.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The Balance Sheet and corporate financial decisions*

2. A financial manager must be certain about future cash flows when making investment decisions.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The Balance Sheet and corporate financial decisions*

3. Management may be tempted to make decisions that benefit themselves rather than the shareholders they represent. Management compensation, however, can be structured to better align management interests with shareholder interests.

**TRUE**

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.*

*Topic: The agency problem and control of the corporation*

4. Who makes the financial decisions for a corporation?

A. the shareholders

B. external stakeholders

**C.** management

D. hedge fund managers

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The goal of financial management*

5. Which of the following is part of the investment decision?

A. what dividend the firm should pay

**B.** what assets the firm should purchase

C. how the firm should fund asset purchases

D. how much cash the firm should hold

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The Balance Sheet and corporate financial decisions*

6. As a financial manager should you be concerned with how to finance the purchase of a new factory?

A. no

B. yes, but only if we already have sufficient cash

C. no, unless we need to borrow the money

**D.** yes, we should decide how it is paid for

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: Corporate finance and the financial manager*

7. A business created as a distinct legal entity composed of one or more individuals or entities is known as a:

A. sole proprietorship

B. partnership

C. joint venture

**D.** company

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: The corporate form of business organisation*

8. The primary goal of financial management is to:

A. maximise current sales

**B.** maximise the value of shares

C. minimise costs

D. maximise market share

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The goal of financial management*

9. The difference between the total value of assets and the total value of liabilities is the:

A. net cash flows

B. net working capital

**C.** shareholders' equity

D. gross profit

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The Balance Sheet and corporate financial decisions*

10. A debt that is not due in the coming year is classified as a(n):

A. indirect liability

B. direct liability

**C.** non-current liability

D. current liability

*AACSB: Communication*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The Balance Sheet and corporate financial decisions*

11. Under sole proprietorship, the owner has \_\_\_\_\_\_\_\_ for business debts.

A. no responsibility

**B.** unlimited liability

C. no liability

D. limited personal liability

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: The corporate form of business organisation*

12. Under a partnership, the partners have \_\_\_\_\_\_\_\_ for partnership debts.

A. limited liability

**B.** unlimited liability

C. no liability

D. limited personal liability

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: The corporate form of business organisation*

13. Forming a company involves preparing a(n):

A. deed

B. agreement

**C.** constitution

D. ownership agreement

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: The corporate form of business organisation*

14. Assets are classified as:

A. intangible or non-current

**B.** current or non-current

C. cash or accounts receivable

D. direct or indirect

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The Balance Sheet and corporate financial decisions*

15. The concept of 'primary market' refers to the:

A. original sale of securities by governments

B. original sale of securities by companies

C. securities bought and sold after the original sale

**D.** both original sale of securities by governments and original sale of securities by companies

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: Financial markets and the corporation*

16. \_\_\_\_\_\_\_\_ states that in a perfect capital market, it is possible to separate the firm's investment decisions from the owners' consumption decisions.

A. Arrow's impossibility theorem

**B.** Fisher's separation theorem

C. two period perfect certainty model

D. the utility curves of investors

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

17. Under the assumptions of the perfect certainty model:

A. a firm's future cash flows are known exactly

B. the market rate of interest is same for all participants

**C.** both a firm's future cash flows are known exactly, and the market rate of interest is the same for all participants

D. none of the given answers

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

18. The assumption of rational investors assumes that:

A. all investors are wealth maximisers

B. all investors are utility minimisers

C. all investors are utility maximisers

**D.** all investors are utility or wealth maximisers

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The two-period perfect certainty model*

19. Capital structure is:

**A.** the mix of debt and equity maintained by a firm

B. the mix of short-term debt and assets held by a firm

C. the mix of long-term debt and assets held by a firm

D. the mix of dividends and debt maintained by a firm

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: The Balance Sheet and corporate financial decisions*

20. The process of planning and managing a firm's investment in non-current assets is known as:

A. working capital management

B. financing decision

**C.** capital budgeting

D. earnings decision

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: The Balance Sheet and corporate financial decisions*

21. Evaluating the size, timing and risk of future cash flows is the essence of:

A. working capital management

B. profit maximisation

**C.** capital budgeting

D. both profit maximisation and capital budgeting

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The Balance Sheet and corporate financial decisions*

22. The difference between a firm's current assets and current liabilities is called:

A. accounting profits

B. excess profits

**C.** net working capital

D. both accounting profits and net working capital

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The Balance Sheet and corporate financial decisions*

23. The money market is a(n) \_\_\_\_\_\_\_\_.

A. long-term market

B. auction market

**C.** short-term market where short-term debt securities are traded

D. none of the given answers

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: Financial markets and the corporation*

24. The relationship between shareholders and management is called:

**A.** an agency relationship

B. a proxy relationship

C. a managerial relationship

D. both an agency relationship and an agency problem

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.*

*Topic: The agency problem and control of the corporation*

25. \_\_\_\_\_\_\_\_ are financial markets where short-term debt securities are bought and sold.

**A.** money markets

B. capital markets

C. primary markets

D. secondary markets

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: Financial markets and the corporation*

26. Which of the following would be considered a current asset on a firm's balance sheet?

A. accounts payable

**B.** inventory

C. plant and machinery

D. both accounts payable and inventory

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The Balance Sheet and corporate financial decisions*

27. The possibility of conflict between shareholders and management of the firm is called:

A. corporate breakdown

**B.** an agency problem

C. management breakdown

D. legal liability

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.*

*Topic: The agency problem and control of the corporation*

28. Agency costs refer to:

A. the total dividends paid to shareholders over a period of 10 years

B. the total interest paid to bondholders over a period of 10 years

C. both the total dividends paid to shareholders over a period of 10 years, and the total interest paid to bondholders over a period of 10 years

**D.** the costs of the conflict of interest between shareholders and management

*AACSB: Ethics*

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*Difficulty: Easy*

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*Topic: The agency problem and control of the corporation*

29. A stakeholder is:

A. a proxy vote made at a shareholders meeting

B. a shareholder of a firm

C. a debt-holder of a firm

**D.** someone other than a shareholder or debt-holder who potentially has a claim on a firm

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.*

*Topic: The agency problem and control of the corporation*

30. Long-term debt and equity securities are bought and sold in:

A. money markets

**B.** capital markets

C. primary markets

D. secondary markets

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: Financial markets and the corporation*

31. Commercial paper or bills are examples of:

**A.** money market instruments

B. capital market instruments

C. hybrid market instruments

D. long-term debt securities

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: Financial markets and the corporation*

32. The total market value of a publicly-listed firm's equity is determined by:

A. the firm's financial officer

B. the firm's board of directors

C. the firm's underwriters

**D.** the investors in the stock market

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The goal of financial management*

33. The \_\_\_\_\_\_\_\_ market provides the means for transferring ownership of corporate securities from one investor to another.

A. dealer

B. auction

C. primary

**D.** secondary

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: Financial markets and the corporation*

34. Until October 1987, all stock exchange transactions were conducted using the \_\_\_\_\_\_\_\_\_\_ on the trading floor.

A. dealer market system

B. auction market system

**C.** open outcry system

D. primary market system

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: Financial markets and the corporation*

35. By law, public offerings of debt and equity to the public must be accompanied by a \_\_\_\_\_\_\_\_, which must be lodged with ASIC.

A. balance sheet

B. statement of capital structure

C. statement of cash flows

**D.** prospectus

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: Financial markets and the corporation*

36. Which of the following is a disadvantage of partnerships?

**A.** limited life of the business

B. they involve lots of agency problems

C. they are difficult to set up

D. none of the given answers

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: The corporate form of business organisation*

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A. management buying a new company car that is not required

B. management deciding to fly first class rather than economy class

C. having to pay external auditors

**D.** lost opportunity due to management not pursuing a value creating investment

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Difficulty: Hard*

*Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.*

*Topic: The agency problem and control of the corporation*

38. Underperforming management may be replaced by:

A. a takeover

B. a proxy fight

**C.** either a takeover or a proxy fight

D. neither a takeover nor a proxy fight

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Difficulty: Hard*

*Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.*

*Topic: The agency problem and control of the corporation*

39. Current assets include:

**A.** cash, inventory, and accounts receivable

B. cash, inventory, and intangibles

C. cash, accounts receivable, and intangibles

D. inventory, accounts receivable, and intangibles

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: Corporate finance and the financial manager*

40. Accounting income or earnings:

A. is always higher than cash flow

B. is always lower than cash flow

C. is the same as cash flow

**D.** can be very different from cash flow

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The Balance Sheet and corporate financial decisions*

41. Which of the following does working capital management NOT involve?

A. deciding how much inventory to hold

**B.** deciding whether to reduce the dividend

C. altering the terms of credit sales

D. altering the criteria regarding who to extend sales to

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Hard*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The Balance Sheet and corporate financial decisions*

42. The assumptions of the two-period perfect certainty model are:

**A.** perfect certainty, perfect capital markets, and rational investors

B. perfect uncertainty, imperfect capital markets, and irrational investors

C. perfect certainty, imperfect capital markets, and rational investors

D. perfect certainty, perfect capital markets, and irrational investors

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Hard*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

43. In a world with perfect capital markets and perfect certainty, it is:

A. only the financing decision that affects firm value

B. only the dividend decision that affects firm value

**C.** only the investment decision that affects firm value

D. none of the given answers

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

44. In a world with perfect capital markets and uncertainty, it is:

A. only the financing decision that affects firm value

B. only the dividend decision that affects firm value

**C.** only the investment decision that affects firm value

D. none of the given answers

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Hard*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

45. According to Clifford W Smith Jr:

A. markets impose costs on companies that engage in ethical behaviour

B. market forces provide incentives for ethical behaviour

**C.** markets impose costs on companies that engage in unethical behaviour, and market forces provide incentives for ethical behaviour

D. markets do not impose costs on companies that engage in unethical behaviour, and market forces do not provide incentives for ethical behaviour

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.*

*Topic: The agency problem and control of the corporation*

46. A firm that pays a dividend:

A. should grow more quickly than an identical firm that pays no dividend

**B.** should grow more slowly than an identical firm that pays no dividend

C. should grow at the same rate as an identical firm that pays no dividend

D. none of the given answers

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The Balance Sheet and corporate financial decisions*

47. Fisher's separation theorem states that it is possible to separate the investment decisions of the firm from the consumption decisions of the owners.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

48. A perfect capital market implies that the borrowing and lending rates are the same.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

49. Under the two-period perfect certainty model investors allocate their resources through time according to two criteria.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

50. The certainty model is restricted to a single interval of time of specified length.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

51. Under the two-period perfect certainty model, both the financing and the investment decisions affect the firm value.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

52. Of the three decisions facing the financial manager of the firm, it's only the investment decision that affects firm value.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

53. If used correctly, the NPV and IRR rules give the same accept / reject decisions for a project.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The two-period perfect certainty model*

54. Arrow's Impossibility Theorem states that when there is an imperfect market there is no longer a unique production decision that would be made by any current owner regardless of the preferences of the owner.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

55. When a public offering is underwritten, an underwriter or syndicate contracts to purchase from the firm those securities that remain unsold to the public.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The two-period perfect certainty model*

56. The trading floors in the Australian Stock Exchange were closed in October 1990 and all shares are now traded on an automated trading system.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: Financial markets and the corporation*

57. A financial manager has to consider the size, timing and risk of future cash flows when making investment decisions.

**TRUE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The Balance Sheet and corporate financial decisions*

58. Which of the following is not part of the investment decision?

A. what projects to undertake

**B.** how to finance the investments

C. what fixed assets to invest in

D. what working capital investments to undertake

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The Balance Sheet and corporate financial decisions*

59. Under partnership, the partners generally have \_\_\_\_\_\_\_\_ for business debts.

A. no responsibility

**B.** unlimited liability

C. no liability

D. limited personal liability

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: The corporate form of business organisation*

60. Which of the following is a primary market transaction?

A. directors selling shares on the ASX

B. institutional investors trading shares on the ASX

C. securities bought and sold after the original sale

**D.** a company undertaking an issue of securities to the public

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: Financial markets and the corporation*

61. Which of the following would be considered a current liability on a firm's balance sheet?

**A.** notes payable

B. inventory

C. plant and machinery

D. both notes payable and inventory

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.*

*Topic: The Balance Sheet and corporate financial decisions*

62. A firm&rsquo;s choice of capital structure involves:

A. the choice of current and non-current assets

B. the mix of short-term debt and assets held by a firm

**C.** the mix of debt and equity

D. the mix of dividends and debt maintained by a firm

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.*

*Topic: The Balance Sheet and corporate financial decisions*

63. Which of the following is considered to be the most appropriate goal for a corporate firm?

A. maximising sales revenue

**B.** maximising current share price

C. maximising dividends paid to shareholders

D. minimising cost of operations

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The Balance Sheet and corporate financial decisions*

64. Of the three decisions facing the financial manager of the firm, it's only the dividend decision that affects firm value.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

65. The NPV and IRR rules always lead to conflict in choosing projects.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The two-period perfect certainty model*

66. Arrow's Impossibility Theorem states that when there is an imperfect market there is always a unique production decision that would be made by any current owner, regardless of the preferences of the owner.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Medium*

*Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.*

*Topic: The two-period perfect certainty model*

67. When a public offering of shares is undertaken, there is always a guarantee that all shares on offer are sold to the public.

**FALSE**

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Difficulty: Easy*

*Learning Objective: 1.2 Understand the goal of financial management.*

*Topic: The two-period perfect certainty model*

Chapter 01 - Test Bank - Static Summary

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| --- | --- |
| *Category* | *# of Questions* |
| AACSB:  Analytical Thinking | 59 |
| AACSB:  Communication | 1 |
| AACSB:  Ethics | 7 |
| Accessibility: Keyboard Navigation | 67 |
| Difficulty: Easy | 38 |
| Difficulty: Hard | 5 |
| Difficulty: Medium | 24 |
| Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager. | 14 |
| Learning Objective: 1.2 Understand the goal of financial management. | 13 |
| Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation. | 18 |
| Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners. | 8 |
| Learning Objective: 1.5 Explain and apply the two-period perfect certainty model. | 14 |
| Topic: Corporate finance and the financial manager | 2 |
| Topic: Financial markets and the corporation | 10 |
| Topic: The agency problem and control of the corporation | 8 |
| Topic: The Balance Sheet and corporate financial decisions | 19 |
| Topic: The corporate form of business organisation | 6 |
| Topic: The goal of financial management | 3 |
| Topic: The two-period perfect certainty model | 19 |