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Name:____ Class:_________________________ Date:_____________

Chapter 01: An Overview of Managerial Finance

1. Which of the following statements is correct? Assume everything else equal.
   a. Riskier assets always have higher market values.
   b. Riskier assets are more valuable than (preferred to) less risky assets.
   c. The sooner cash is received, the more valuable it is.
   d. Investors generally prefer short-term, high-risk assets investments.
   e. Investors generally receive higher returns on investments with low risk than investments with high risk.

ANSWER: c

2. The success of financial institutions depends on the _____.
   a. understanding of the factors that cause interest rates and other returns in the financial markets to rise and fall
   b. environmentally responsible behavior of the shareholders of corporations
   c. expectations of long-term investors in the company
   d. awareness of the shareholders regarding the regulations that affect public corporations
   e. prior knowledge of the decisions that public corporations make concerning their cash flows

ANSWER: a

3. Which of the following is true of the investment function of finance?
   a. The investment function focuses on socially responsible actions taken by corporations.
   b. The investment function focuses on the values, risks, and returns associated with financial assets such as stocks and bonds.
   c. The investment function focuses on the optimal mix of securities based on the environment-friendly behavior of the corporations.
   d. The investment function focuses on regulations applicable to a public corporation.
   e. The investment function focuses on additional information about the procedures used to construct and report financial statements.

ANSWER: b

4. Identify a true statement about the financial services provided by organizations.
   a. Financial services organizations invest only in environmentally responsible public corporations.
   b. Financial services include services provided by banks and insurance companies only.
   c. Financial services organizations make investment decisions based solely on the socially responsible behavior of corporates.
   d. Financial services organizations provide comparative cash flow positions of competing corporations to investors to help them with investment decisions.
   e. Financial services organizations help individuals and companies determine how to invest money to achieve their financial goals.

ANSWER: e

5. Financial services refer to functions provided by organizations that _____.
   a. deal with the most efficient management of the human resources
   b. ensure that regulations of the Sarbanes-Oxley Act are followed by public corporations
   c. recommend the most environment friendly method of operations to a corporation
   d. recommend the types of securities to be issued to finance plant expansions
   e. deal with the management of money

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ANSWER: e

6. Which of the following functions deals with the management of money?
   a. Marketing
   b. Human resources
   c. Financial services
   d. Information systems
   e. Research and development

ANSWER: c

7. Which of the following is true of financial services provided by persons working in banks, insurance companies, and brokerage firms?
   a. Persons working in banks, insurance companies, and brokerage firms help corporations to decide the types of securities to be issued to finance plant expansion.
   b. Persons working in banks, insurance companies, and brokerage firms help individuals and companies determine how to invest money to achieve their financial goals.
   c. Persons working in banks, insurance companies, and brokerage firms help corporations fulfill the regulations required by the Sarbanes-Oxley Act.
   d. Persons working in banks, insurance companies, and brokerage firms help public corporations follow environment-friendly practices.
   e. Persons working in banks, insurance companies, and brokerage firms help corporations in framing their bylaws.

ANSWER: b

8. Which of the following is true of financial institutions?
   a. Financial institutions are the regulators of interest rates and other returns in financial markets.
   b. Managers of financial institutions should have an understanding of factors that cause interest rates and other returns in the financial markets to rise and fall.
   c. Financial institutions are accountable and responsible in reporting financial information for publicly-traded corporations.
   d. Financial institutions are required by the Sarbanes-Oxley Act to disclose the environment-friendly measures taken by investment corporations.
   e. Financial institutions require public corporations to adopt socially responsible work practices.

ANSWER: b

9. The treasurer of a company is a key subordinate of the _____.
   a. controller
   b. financial vice president
   c. chief executive officer
   d. credit manager
   e. director of capital budgeting

ANSWER: b

10. The credit manager is supervised by the _____.
   a. treasurer

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b. inventory manager
c. director of capital budgeting
d. vice president of finance
e. controller

ANSWER: a

11. The accounting and tax departments are the responsibility of the _____.
a. treasurer
b. inventory manager
c. director of capital budgeting
d. vice president of finance
e. controller

ANSWER: e

12. Everything else equal, including firm size, dollar sales, type of product sold, and so forth, the primary difference between proprietorship and partnership business forms is that _____.
a. a partnership has more owners than a proprietorship
b. the combined personal liability associated with a partnership is significantly less than the combined personal liability associated with a proprietorship
c. a partnership is generally easier to form than a proprietorship
d. the annual growth rate of a proprietorship is limited by law, whereas the growth rate of a partnership is always potentially unlimited
e. many more businesses are formed as partnerships than proprietorships

ANSWER: a

13. Which of the following represents a difference between an S corporation and a limited liability company (LLC)?
a. An S corporation can have more than one type of stock outstanding, whereas an LLC can have only one type of stock outstanding.
b. An S corporation can choose to be taxed as a corporation or as a partnership, whereas an LLC is taxed as a corporation only.
c. An S corporation is subject to unlimited personal liability of the owners, whereas an LLC is subject to limited personal liability.
d. An S corporation has no more than 100 stockholders, whereas an LLC can have more than 100 stockholders (members).
e. An S corporation's business income is subject to double taxation, whereas an LLC's business income is taxed only once.

ANSWER: d

14. Which of the following statements is true of corporate bylaws?
a. Corporate bylaws are a set of rules drawn up by the state to enable managers to run the firm in accordance with state laws.
b. Procedures for electing corporate directors are contained in corporate bylaws.
c. Procedures that govern changes in corporate bylaws are contained in the corporate charter.
d. To open their doors and start their operations, corporations are legally required only to file their bylaws with the appropriate agency in the state where they incorporate.

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e. The declaration of the activities that a firm will pursue and the number of directors are included in the corporate bylaws.

ANSWER: b

15. Which of the following statements is correct?
   a. A hostile takeover is the primary method of transferring ownership interest in a corporation.
   b. The corporation is a legal entity created by the state and is a direct extension of the legal status of its owners and managers, that is, the owners and managers are the corporation.
   c. Unlimited liability and limited life are two key advantages of the corporate form over other forms of business organization.
   d. In part due to limited liability and ease of ownership transfer, corporations have less trouble raising money in financial markets than other organizational forms.
   e. Although stockholders of the corporation are insulated by limited legal liability, the legal status of the corporation does not protect the firm's managers in the same way.

ANSWER: d

16. Which of the following statements is correct?
   a. In a partnership, liability for other partners' misdeeds includes but is limited to the amount a particular partner has invested in the business.
   b. Partnerships must be formed according to specific rules, which include the filing of a formal written agreement with state authorities where the partnership does business.
   c. A fast growth company would be more likely to set up a partnership for its business organization than would a slow-growth company.
   d. Under partnership law, if any partner is unable to meet his or her pro rata claim in the event the partnership goes bankrupt, the remaining partners must make good on the unsatisfied claims.
   e. A major disadvantage of a partnership as a form of business organization is the high cost and practical difficulty of its formation.

ANSWER: d

17. Which of the following statements is correct?
   a. A major disadvantage of a regular partnership or a corporation as a form of business is the fact that they do not offer their owners limited liability, whereas proprietorships do.
   b. An advantage of the corporate form for many businesses is the fact that the corporate tax rate always exceeds the personal tax rate, which is the rate at which proprietorships and partnerships are taxed.
   c. There are more partnerships and proprietorships than corporations in the United States, but corporations produce more goods and services than do other forms of business.
   d. Because partnerships and proprietorships enjoy the benefits of limited liability, easy transferability of ownership interest, unlimited life, and favorable tax status relative to the situation for corporations, most large businesses choose to be set up as partnerships and proprietorships.
   e. Because lawyers have the incorporation process so automated (e.g., word processors for drawing up the necessary papers), it is less expensive to form a corporation than to form a proprietorship or partnership.

ANSWER: c

18. Which of the following statements about the corporate form of business organization is correct?
   a. A corporation has the legal authority to act like a person when conducting business.
   b. In the United States, corporations generate a lower percentage of total annual sales than either partnerships or

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proprietorships.
c. Corporations generally are smaller than either partnerships or proprietorships.
d. One of the most important features of the corporate form of business organization is that stockholders have unlimited liability.
e. Corporations can operate under different degrees of formality, ranging from informal, oral understandings to formal agreements filed with the secretary of the state in which the corporations do business.

ANSWER: a

19. In the United States, the most common form of business is the _____, and the form of business that generates most of the sales and profits is the _____.
a. corporation; corporation
b. corporation; proprietorship
c. proprietorship; partnership
d. proprietorship; corporation
e. corporation; partnership

ANSWER: d

20. Which of the following is a disadvantage of the corporate form of business?
a. A corporation faces difficulty in attracting substantial amounts of funds.
b. The owners of a corporation are subject to unlimited personal liability for the business' debts.
c. Setting up a corporation is more complex and time-consuming than setting up a proprietorship or a partnership.
d. A corporation is said to have limited life.
e. Ownership interests cannot be transferred as easily as proprietorship or partnership interests.

ANSWER: c

21. Compared to corporations, what is the primary disadvantage of partnerships as a form of business organization?
a. The tax rates applied to partnerships are higher than the tax rates applied to corporations.
b. Any dividends paid to the owners of a partnership business are taxed twice, once at the partnership level and once at the personal, or individual level.
c. Partnerships generally are more complex to form (start up) than corporations.
d. Partnerships have unlimited lives whereas corporations do not.
e. The owners of a partnership, that is, the partners, have unlimited liability when it comes to business obligations whereas the owners of a corporation have limited liability.

ANSWER: e

22. Which of the following forms of business offers limited personal liability to owners as well as the choice to be taxed as either a corporation or as a partnership?
a. Limited liability partnership
b. Limited liability company
c. Corporation
d. Proprietorship
e. Partnership

ANSWER: b

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23. Identify a true statement about a limited liability company (LLC).
    a. A limited liability company can be taxed as a corporation only.
    b. One of the owners of a limited liability company must be designated as a general partner with unlimited personal financial liability.
    c. A limited liability company can have no more than 100 stockholders.
    d. Only one of the owners of a limited liability company can participate in the management of the business.
    e. A limited liability company can have more than one type of stock (ownership interest) outstanding.

ANSWER: e

24. If a limited liability company (LLC) is taxed like a partnership, _____.
    a. income passes through to the owners
    b. income is taxed twice
    c. the owners have unlimited tax liability
    d. the shareholders pay taxes on dividends they receive after the company pays taxes on the money that is distributed
    e. dividends are taxed at the capital gain rate

ANSWER: a

25. Identify a true statement about a limited liability company (LLC).
    a. A limited liability company (LLC) has a maximum of 100 stockholders (owners).
    b. A limited liability company (LLC) offers the limited personal liability associated with a corporation.
    c. A limited liability company (LLC) has only one type of stock (membership interest).
    d. A limited liability company (LLC) is taxed as a partnership, which means the stockholders are subject to double taxation.
    e. A limited liability company (LLC) is liable for the negligence, irresponsibility, or similar acts committed by any partner.

ANSWER: b

26. Which of the following is true of a general partner of a limited liability partnership (LLP)?
    a. A general partner of a limited liability partnership (LLP) is fully personally liable for all business debts.
    b. A general partner of a limited liability partnership (LLP) cannot participate in the management of the business.
    c. A general partner of a limited liability partnership (LLP) is considered as an investor only.
    d. A general partner of a limited liability partnership (LLP) is liable only to the extent of his/her investment in the partnership.
    e. A general partner of a limited liability partnership (LLP) is taxed for the limited partners' share of the partnership's income.

ANSWER: a

27. A limited partner in a limited liability partnership (LLP) is _____.
    a. responsible for the general management of the business
    b. liable for only the amount invested in the partnership
    c. responsible for negligence, irresponsibility, or similar acts committed by any other partner
    d. liable to pay tax on the general partner's share of partnership income
    e. personally liable for the partnership debts

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ANSWER: b

28. It is possible to limit the liability faced by some of the partners in a partnership form of business by establishing a _____.

    a. limited liability partnership (LLP)
    b. general partnership
    c. proprietorship
    d. concentrated partnership
    e. limited accumulation partnership

ANSWER: a

29. Identify a true statement about an S corporation.

    a. An S corporation is required to have more than 100 stockholders.
    b. An S corporation is required to have more than one type of stock outstanding.
    c. The income of an S corporation passes through the company to the owners.
    d. The income of an S corporation is taxed twice, at the corporate level and the owner level.
    e. The income of an S corporation is taxed as capital gains to the owners.

ANSWER: c

30. Which of the following is a feature of an S corporation?

    a. An S corporation is required to have more than 100 stockholders.
    b. An S corporation is required to have more than one type of stock outstanding.
    c. The income of an S corporation is taxed as capital gains to the owners.
    d. The income of an S corporation is taxed twice, at the corporate level and the owner level.
    e. The income of an S corporation is taxed the same as income earned by proprietorships and partnerships.

ANSWER: e

31. The primary goal of a publicly-owned firm interested in serving its stockholders should be to _____.

    a. minimize the debt used by a firm
    b. maximize expected earnings per share (EPS)
    c. minimize the chances of losses
    d. maximize the stock price per share
    e. maximize expected net income

ANSWER: d

32. Institutional investors can ensure that a corporation pursues goals that are in their best interest by _____.

    a. binding the management with stockholder-sponsored proposals
    b. ensuring that the management is working toward maximizing current earnings
    c. compensating managers of the corporation on the basis of the firm's performance in the short run
    d. implementing policies that encourage management to make decisions that maximize managers' wealth
    e. monitoring its financial performance to ensure that managers pursue the goal of wealth maximization

ANSWER: e

33. Which of the following statements is correct?

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a. Given the multi-owner nature of most large corporations, the agency costs associated with perquisite consumption are not really a problem.

b. Managers may operate in the stockholders' best interests, but they may also operate in their own personal best interests. As long as managers stay within the law, there simply are not any effective controls that stockholders can implement to affect managerial decision making.

c. The potential for agency problems is greatest when individual stockholders own extremely small proportions of the companies and managers have little, if any, of their own wealth tied up in these companies.

d. An agency relationship exists when one or more persons hire another person to perform some service but withhold decision-making authority from that person.

e. Managers rule out any potential conflicts of interest with the shareholders by selling the firm's stock to outsiders.

ANSWER: c

34. Which of the following actions is consistent with social responsibility and is not necessarily inconsistent with stockholder wealth maximization?

a. Selling a smokestack "scrubber" required by the firm's air pollution policy that is also mandated by law.

b. Dumping effluent discharge into a river, where it ruins the drinking water of the community around the plant. The installation of machinery to treat the effluents is very expensive.

c. Investing in a smokestack filter to reduce sulphur-dioxide emissions to decrease the tax being levied on the firm by the state for pollution it produces each year.

d. Making a large corporate donation to the local community for funding a recreation complex that can be used by the firm's employees only.

e. Taking over the competitor's business in an attempt to establish a monopoly for its product in the market.

ANSWER: c

35. Which of the following statements is correct?

a. The optimal dividend policy is the one that satisfies management, not shareholders.

b. The use of debt financing has no effect on earnings per share (EPS) or stock price.

c. The riskiness of projected EPS can impact the firm's value.

d. Stock price is dependent on the projected EPS and the use of debt, but not on the timing of the earnings stream.

e. Dividend policy is one aspect of the firm's financial policy that is determined solely by the shareholders.

ANSWER: c

36. Which of the following statements is correct?

a. Other things held constant, it is generally safer to invest money in a proprietorship than in a corporation.

b. There really is no difference between a general partnership and a corporation, because both have multiple owners and both offer limited liability to the owners.

c. If you are planning to start a business, which you will run as the sole employee, and if you expect the business to earn $1,000,000 per year before taxes, you always can minimize the total taxes you pay by setting up the business as a corporation.

d. According to the text, "agency problems" tend to increase when managers own larger relative amounts of the company's stock.

e. Maximizing the income statement item "net income" might not be the best goal for a corporation if the managers are interested in maximizing the economic welfare of the firm's stockholders (that is, the firm's stock price).

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ANSWER: e

37. Paying Payroll Service (PPS) recently declared bankruptcy. The price of PPS's stock has dropped from approximately $10 per share one year ago to $1 today. You can imagine that stockholders are not happy that the value of their stock has dropped so significantly. At the same time the financial position of the firm was deteriorating, PPS executives increased their salaries and perquisites substantially. Nothing they did violated any laws or was considered an unethical act. We would most likely describe this situation as _____.

a. an agency problem
b. an accounting glitch
c. an appropriate use of the tax laws
d. an appropriate action, because executive compensation should always be increased substantially each year
e. acceptable, because it is obvious that the executives were trying to maximize the value of the firm, which is what the shareholders want them to do

ANSWER: a

38. All else equal, in which of the following forms of business would the possibility of an agency problem be the greatest?

a. A U.S. corporation in which individual stockholders own extremely small proportions of the company.
b. A proprietorship in which the owner is actively managing the business operations.
c. A partnership in which all the partners share management and decision-making responsibilities equally.
d. A foreign corporation with concentrated ownership; that is, it has relatively few owners.
e. A U.S. corporation that gives company shares as incentives to its managers.

ANSWER: a

39. Identify the internal factor that influences the stock price of a firm.

a. Legal constraints
b. Capital structure
c. Tax laws
d. General level of economic activity
e. Conditions in the stock market

ANSWER: b

40. Which of the following statements is true of agency problems?

a. Regardless of economic conditions, if a firm's stock price falls during the year, this indicates that the firm's managers must not be acting in the best interests of the shareholders.
b. One method of controlling agency problems is to engage in the taking of "poison pills."
c. One of the best means to control agency problems is to require the managers and other important decision-makers of the firm to also be owners of the firm.
d. Agency problems probably would not exist if the important decisions of a firm were made by persons who have no vested interests, such as ownership, in the firm.
e. Shareholders can solve agency problems by selling their stock to other investors.

ANSWER: c

41. The management's primary goal is stockholder wealth maximization, which translates into _____.

a. maximizing the value of the firm as measured by the price of its common stock
b. maximizing the earnings per share of the stockholders

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c. maximizing the dividends received by stockholders
d. maximizing the net income earned by the company
e. maximizing the managerial compensation (incentives)

ANSWER: a

42. Stock price maximization requires _____.
a. sale of high-quality goods and services at the highest possible prices
b. efficient, low-cost plants that produce high-quality goods and services
c. the development of products that can be sold at a higher price to consumers
d. investment in high-cost plants to manufacture efficiently
e. investment in one business establishment to cut the operational cost of multiple establishments

ANSWER: b

43. Actions that help a firm increase the price of its stock also _____.
a. result in manufacturing of low-quality products
b. result in inflation
c. require the development of products that consumers want and need
d. require investment in high-cost manufacturing plants
e. result in sale of goods and services at highest possible prices

ANSWER: c

44. Identify the external factor that affects the value of a firm's stock.
a. Capital structure decisions
b. General level of economic activity
c. Capital budgeting decisions
d. Dividend policy decisions
e. Cash flow of the firm

ANSWER: b

45. Which of the following mathematical expressions computes earnings per share (EPS)?
a. Earnings per share = Net Income × Number of outstanding shares of common stock
b. Earnings per share = (Net Income + Dividend Paid) ÷ Number of outstanding shares of common stock
c. Earnings per share = Net Income ÷ Number of outstanding shares of common stock
d. Earnings per share = (Net Income – Dividend Paid) ÷ Number of outstanding shares of common stock
e. Earnings per share = (Net Income – Dividend Paid) × Number of outstanding shares of common stock

ANSWER: c

46. Which of the following statements is true of earnings per share?
a. A company must pay tax on the earnings per share.
b. Earnings per share can be maximized by changing from corporation to proprietorship form of organization.
c. A company can maximize its value by maximizing earnings per share.
d. Earnings per share is often used as an indication of the firm's potential for generating future cash flows.
e. A high earnings per share in the current period results in lower future risk position of the business.

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ANSWER: d

47. Which of the following statements is true of a hostile takeover?
    a. A hostile takeover results when management wants the firm to be taken over.
    b. A hostile takeover is most likely to occur when a firm's stock is undervalued relative to its potential.
    c. After a hostile takeover, managers of the acquired firm generally retain the positions they had prior to the takeover.
    d. A hostile takeover does not allow managers to take actions that maximize stock prices.
    e. A hostile takeover results in poor management and inefficient operations after the takeover is completed.

ANSWER: b

48. Which of the following actions should be taken by managers to avoid takeover threats?
    a. Managers should take action to maximize stock prices.
    b. Managers should declare lower dividends.
    c. Managers should let the stockholders make the capital structure decisions.
    d. Managers should make decisions that decrease the firm's expected future cash flows.
    e. Managers should ensure that high-quality goods and services are sold at the highest possible prices.

ANSWER: a

49. Identify the correct statement about business ethics.
    a. Good business ethics decrease shareholders' trust in the company.
    b. Good business ethics result in recurring fines and legal expenses.
    c. Good business ethics attract business from customers who appreciate and support specific political parties.
    d. Good business ethics reduce the economic viability of the communities where these firms operate.
    e. Good business ethics attract and keep employees of the highest caliber.

ANSWER: e

50. Which of the following statements concerning a firm's quest to maximize wealth is correct?
    a. In extremely competitive industries, we would expect firms would voluntarily engage in many socially beneficial projects to try to maximize their stocks' values.
    b. Actions that maximize a firm's stock price are inconsistent with maximizing social welfare.
    c. The concepts of social responsibility and ethical responsibility on the part of corporations are completely different and neither is relevant in maximizing stock price.
    d. In a competitive market, if a group of firms does not spend resources making social welfare improvements, but another group does, in general, this will not affect the second group's ability to attract funds.
    e. If the government did not mandate socially responsible corporate actions, such as those relating to product safety and fair hiring practices, most firms in competitive markets probably would not pursue such policies voluntarily.

ANSWER: e

51. The 11 sections (titles) in the Sarbanes-Oxley Act of 2002 establish standards for accountability and responsibility in reporting financial information for publicly-traded corporations. Which of the following activities does the act provide that a corporation must abide by?
    a. The corporation must have a committee that consists of an internal director nominated from the board to oversee the firm's audits.

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b. The corporation's internal auditor will render a biased opinion concerning the firm's financial statements.
c. The corporation must maximize social welfare through funding of environmentally friendly activities.
d. The corporation must provide additional information about the procedures used to construct and report financial statements.
e. Either the firm's chief executive officer (CEO) or its chief financial officer (CFO), but not both, must certify audit reports submitted to the Securities Exchange Commission.

ANSWER: d

52. Which of the following is an example of ethical behavior of the management of a corporation?
a. Executives of the corporation pursue their own personal interests when making important business decisions.
b. Payment of bribe by the management of the corporation to foreign governments to obtain business.
c. The management of the corporation uses confidential information for personal gain.
d. Management actions often result in large gains for themselves and large losses for stockholders.
e. The management takes steps to adhere to laws and regulations relating to product safety.

ANSWER: e

53. The 11 sections (titles) in the Sarbanes-Oxley Act of 2002 _____.
a. require corporations to payout all the earnings as dividends
b. establish standards for accountability and responsibility in reporting financial information
c. allow management to take actions resulting in large gains to them and losses to stockholders
d. allow management to use confidential information for personal gains
e. require stockholders to make capital structure decisions

ANSWER: b

54. The Sarbanes-Oxley Act of 2002 requires a publicly-traded corporation to _____.
a. keep confidential the procedures used to construct and report financial statements
b. have an internal audit team that renders an unbiased opinion concerning the firm's governance policy
c. have a committee that consists of outside directors to oversee the firm's audits
d. increase the certainty of the expected cash flows
e. adopt the primary goal of stockholder wealth maximization

ANSWER: c

55. The Sarbanes-Oxley Act of 2002 requires the chief executive officer of a publicly-traded corporation to _____.
a. keep confidential the procedures used to construct and report financial statements
b. certify financial reports that are submitted to the Securities and Exchange Commission
c. pursue interests that result in large gains for them and large losses for stockholders
d. oversee the corporation's audit and attest the audit report
e. construct the firm's financial statements

ANSWER: b

56. Which of the following is true of the Sarbanes-Oxley Act of 2002?
a. The act requires at least 30 percent of the businesses in the United States to be formed as S corporations.
b. The act requires a limited liability company to have a committee that consists of inside directors to oversee the firm's audits.

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c. The act requires a limited liability company to be taxed like a proprietorship.

d. The act requires an S corporation to have more than 100 stockholders (members) and more than one type of stock.

e. The act requires a publicly-traded corporation to hire an external auditing firm that renders an unbiased opinion concerning the firm's financial statements.

ANSWER: e

57. Which of the following is a reason for a company to go international?

a. The company manufactures products that have saturated foreign markets.

b. The company holds a patent for the best production technology for its products.

c. The company is manufacturing the finished product in its country at a very high production cost.

d. The company has the best access to the basic resources in its country needed to sustain its primary business.

e. The company wants to avoid a hostile takeover.

ANSWER: c

58. Which of the following statements is correct?

a. Financial institutions in other countries generally are less regulated than in the United States.

b. One reason domestic firms "go global" is to sell products in saturated markets.

c. Often firms can avoid labor laws that apply to foreign manufacturers by establishing manufacturing units in the country where the hurdles apply.

d. One of the advantages associated with doing business in international markets is that all countries report their financial statements in the U.S. dollar.

e. A multinational firm takes advantage of the cultural differences among countries and uses the same marketing strategy in every country in which it operates.

ANSWER: a

59. Because financial institutions in other countries are generally less regulated than those in the United States, they generally _____.

a. invest in less socially responsible companies than U.S. banks

b. can provide businesses a greater variety of services than U.S. banks can

c. invest to minimize investment corporations' losses

d. can provide investment opportunities in illegal business plans also

e. are required to fulfill the regulations of the Sarbanes-Oxley Act

ANSWER: b

60. Which of the following is true of corporations that operate in several different countries?

a. A nation may expropriate the assets of multinational corporations without compensation.

b. Differences in legal systems of host nations make it easy for executives trained in one country to operate effectively in another.

c. Cash flows in various parts of a multinational corporate system are denominated in one currency.

d. Multinational corporations have the advantage of uniform attitudes toward risk taking from one country to the next.

e. Uniformity of tax-laws across different nations result in proper coordination and control of subsidiaries.

ANSWER: a

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61. Which of the following is true of shareholders in continental Europe?
    a. The stocks of corporations are widely dispersed among a large number of different investors, both individuals and institutions.
    b. Many shareholders assign banks their proxy votes for the directors of the companies.
    c. Banks are major shareholders of corporations in continental Europe.
    d. Major shareholders of closed corporations are not involved in the firms' daily operations.
    e. Shareholders in continental Europe are often family units resulting from the universal banking relationship existing in the United States.

ANSWER: b

62. Which of the following statements is true of the concentrated organizational structures of non-U.S. firms?
    a. The concentrated organizational structures of non-U.S. firms permit managers to focus more on short-term earnings.
    b. The concentrated organizational structures of non-U.S. firms result in restricted access to credit in times of financial difficulty.
    c. The concentrated organizational structures of non-U.S. firms make it difficult to change managers.
    d. The concentrated organizational structures of non-U.S. firms reduce the managerial focus on wealth maximization.
    e. The concentrated organizational structures of non-U.S. firms result from the universal banking relationships that exist outside the United States.

ANSWER: e

63. Which of the following is true of the greater concentration of ownership in non-U.S. firms than in U.S. firms?
    a. It makes it easy to change managers in non-U.S. firms.
    b. It permits greater monitoring and control by individuals or groups than the more dispersed ownership structures of U.S. firms.
    c. It makes it difficult for non-U.S. firms to access credit in times of financial difficulty.
    d. It results in managers focusing on short-term goals rather than on long-term objectives.
    e. It reduces the involvement of stockholders in the daily operations of non-U.S. firms.

ANSWER: b

64. Industrial groups that exist in foreign countries are _____.
    a. owned and managed by the Securities and Exchange Commission
    b. organizations that tie together all the functions of production and sales from start to finish
    c. organizations that encompass firms involved in financing and marketing only
    d. privately held companies and the stock of such firms are not traded publicly
    e. led by the firm involved with manufacturing and distribution of products

ANSWER: b

65. Which of the following statements is true?
    a. The currency values among different countries rarely fluctuate.
    b. Cash flows of various parts of a multinational corporate system are always denominated in the same currencies.
    c. Institutional differences among countries can cause significant problems in coordination of subsidiaries.
    d. No nation places constraints on the transfer of corporate resources.

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e. Within similar geographic regions, different countries have uniform cultural heritages that shape values and influence the role of business in the society.

ANSWER: c

66. Which of the following statements concerning the complexity of the manager's task in a multinational corporation is correct?

a. The currency values of different countries in which a multinational corporation operates often experience fluctuations.
b. Cash flows in the various parts of a multinational corporate system are often denominated in the same currencies.
c. All the countries in which a multinational corporation operates have uniform political and economic institutions.
d. The management personnel of the subsidiaries of a multinational corporation are fluent in English and several other languages.
e. No nation can place constraints on the transfer of corporate resources.

ANSWER: a

67. The prices at which the currency of one country can be converted into the currencies of other countries are known as _____.

a. procurement prices
b. political risk costs
c. exchange rates
d. conversion costs
e. transfer prices

ANSWER: c

68. Which of the following is true of a firm that tries to coordinate and control the worldwide operations of its subsidiaries?

a. The management personnel of its subsidiaries need to be fluent only in English.
b. The subsidiaries based in different countries never face any constraints on the transfer of corporate resources.
c. Cash flows in different subsidiaries are denominated in different currencies.
d. The terms of trade determined after negotiation with the host government and the multinational corporation are always well aligned to the firm's policies.
e. All the subsidiaries are based only in countries that have homogeneous cultural heritages.

ANSWER: c

69. In many countries, the terms under which companies compete, the actions that must be taken or avoided, and the terms of trade of various transactions are determined by _____.

a. the governments of the countries in which the subsidiaries operate
b. the fluctuations in the exchange rates of the currencies of the countries in which the subsidiaries operate
c. direct negotiation between the host government and the multinational corporation
d. the ability to curtail unprofitable operations
e. the host government only

ANSWER: c

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70. The finance function is relatively independent of most other corporate functions. Marketing decisions, for example, might affect the firm's need for funds but are not affected by conditions in financial markets or other financing issues.

a. True

b. False

ANSWER: False

71. Two key limitations of the proprietorship form of business involve potential difficulty in raising the necessary capital and the presence of unlimited personal liability for business debts.

a. True

b. False

ANSWER: True

72. The disadvantages associated with a proprietorship are similar to those of a partnership. A major difference between these two forms of business organization is that a partnership requires a legal agreement that commits the partners' personal assets, which means that partnerships have little difficulty raising large amounts of capital (similar to corporations).

a. True

b. False

ANSWER: False

73. A proprietorship is an unincorporated business owned by one individual and the owner benefits from the limited liability for business, which limits personal losses to what the proprietor has invested in the company.

a. True

b. False

ANSWER: False

74. The corporate charter is a document filed with the secretary of the state in which a firm is incorporated that provides information about the corporation, including its name, address, directors, and amount of capital stock.

a. True

b. False

ANSWER: True

75. In general, the role of a financial manager is to plan for the acquisition and use of funds so as to maximize the value of the firm.

a. True

b. False

ANSWER: True

76. To properly maximize the value of the firm, the financial manager should execute his or her duties independent of the cash flow decisions made by other senior managers.

a. True

b. False

ANSWER: False

77. As hostile takeovers are most likely to occur when a firm's stock is overvalued, the managers have a strong incentive to undervalue the firm's stock relative to its potential.

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a. True

b. False

ANSWER: False

78. The proper goal of the financial manager should be to maximize the firm's expected profit, because this will add the most wealth to each of the individual shareholders (owners) of the firm.

a. True

b. False

ANSWER: False

79. Financial managers should seek the combination of assets, liabilities, and capital that generate the largest expected projected income in the current accounting period.

a. True

b. False

ANSWER: False

80. The riskiness inherent in a firm's earnings per share (EPS) depends on both the types of projects the firm takes on and the manner in which the projects are financed.

a. True

b. False

ANSWER: True

81. If a firm raises its product prices beyond reasonable levels, it will generally lose some of its market share.

a. True

b. False

ANSWER: True

82. If a firm's managers want to maximize stock price, it is in their best interests to operate efficient, low-cost plants, develop new and safe products that consumers want, and maintain good relationships with customers, suppliers, creditors, and the communities in which they operate.

a. True

b. False

ANSWER: True

83. A financial manager's task is to make decisions concerning the acquisition and use of funds for the greatest benefit of the firm.

a. True

b. False

ANSWER: True

84. Incentive compensation plans are used to attract and retain top managerial talent as well as to align the interests of management with shareholders.

a. True

b. False

ANSWER: True

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Chapter 01: An Overview of Managerial Finance

85. In a competitive marketplace, if managers deviate too far from making decisions that are consistent with stockholder wealth maximization, they risk being disciplined by the market. Part of this discipline involves the threat of being taken over by companies with policies that are more aligned with stockholder interests.

a. True

b. False

ANSWER: True

86. Having the manager's compensation tied to the company's performance increases the agency problem that corporations face.

a. True

b. False

ANSWER: False

87. Managers of firms that use alternative accounting techniques to inflate current earnings are likely to generate long-term benefits to the shareholders of the firm.

a. True

b. False

ANSWER: False

88. In a competitive marketplace, "good ethics" is a wonderful idea but an impractical standard, because there are simply too few benefits to be gained from maintaining high business ethics.

a. True

b. False

ANSWER: False

89. No firm can take cost-increasing, socially responsible actions in a competitive marketplace and expect to continue to effectively compete, even if those cost-increasing actions yield significant benefits to the firm.

a. True

b. False

ANSWER: False

90. Cultural differences do not impact the multinational corporations as they expand into different geographic regions.

a. True

b. False

ANSWER: False

91. Exchange rate risk is the risk that the cash flows from a foreign project will be worth less than those same cash flows denominated in the parent company's home currency.

a. True

b. False

ANSWER: True

92. The term *multinational corporation* is used to describe a firm that operates in two or more countries.

a. True

b. False

ANSWER: True

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93. Nations do not have the sovereignty to take over (expropriate) the assets of a firm without compensation.
    a. True
    b. False

ANSWER: False

94. Industrial groups are organizations consisting of companies in different industries with common ownership interests, which include firms necessary to sell and manufacture products.
    a. True
    b. False

ANSWER: True

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