# *Managerial Finance Version 1 1st edition Scott Test Bank*

SKU: 9781453392225-TEST-BANK

**Multiple Choice**

1. Which of the following aims to reduce the agency problem?
   a. Giving lavish "perqs" or perquisites to management
   b. A week-long retreat in Hawaii for management
   c. Comprehensive health care for all employees
   d. Performance-based bonuses for employees

*ANSWER:* d
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/21/2019 8:24 PM
*DATE MODIFIED:* 7/24/2019 8:59 AM

2. Which of the following is a stakeholder of a company?
   a. Shareholder
   b. Customer
   c. Community in which the largest factory resides
   d. All of the above

*ANSWER:* d
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/21/2019 8:26 PM
*DATE MODIFIED:* 7/24/2019 8:59 AM

3. Ethics comes from the Greek word "ethos", meaning:
   a. legal
   b. duty
   c. character
   d. morality

*ANSWER:* c
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/21/2019 8:32 PM
*DATE MODIFIED:* 7/24/2019 9:00 AM

4. Which of the following is NOT a main category of approach to ethics:
   a. Social norms
   b. Character based
   c. Outcome based
   d. Code of law

*ANSWER:* d
*POINTS:* 1

*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/21/2019 8:34 PM
*DATE MODIFIED:* 7/24/2019 9:00 AM

5. Which of the following approaches to ethics is most likely to shift due to changing attitudes over time?
    a. Social norms
    b. Character based
    c. Outcome based
    d. Universal rules

*ANSWER:* a
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/21/2019 8:35 PM
*DATE MODIFIED:* 7/24/2019 9:01 AM



6. Which of the following approaches to ethics is most likely to result in differences from one culture to another?
    a. Social norms
    b. Character based
    c. Outcome based
    d. Universal rules

*ANSWER:* a
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/21/2019 8:36 PM
*DATE MODIFIED:* 7/24/2019 9:01 AM

7. Which of the following approaches to ethics can loosely be described by the phrase: "The ends justifies the means."
    a. Social norms
    b. Character based
    c. Outcome based
    d. Universal rules

*ANSWER:* c
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/21/2019 8:37 PM
*DATE MODIFIED:* 7/24/2019 9:02 AM

8. Which of the following approaches to ethics is governed by one's own sense of morality?
    a. Social norms
    b. Character based
    c. Outcome based

d. Universal rules

*ANSWER:* b
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/21/2019 8:39 PM
*DATE MODIFIED:* 7/24/2019 9:02 AM

9. Which of the following approaches to ethics would be considered most objective?
   a. Social norms
   b. Character based
   c. Outcome based
   d. Universal rules

*ANSWER:* d
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/21/2019 8:42 PM
*DATE MODIFIED:* 7/24/2019 9:03 AM

10. In dealing with the balance of competing stakeholder interests, attention to which of the following should be held as paramount?
   a. profit maximization
   b. environmental concerns
   c. human dignity
   d. employee relations

*ANSWER:* c
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 8:31 AM
*DATE MODIFIED:* 7/24/2019 9:03 AM

11. Executing a stock transaction for your own account before a similar transaction for a customer is known as:
   a. front running
   b. hedging
   c. exploratory trading
   d. crossing

*ANSWER:* a
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 8:41 AM
*DATE MODIFIED:* 7/24/2019 9:04 AM

12. Management of a troubled company decides to engage in risky behavior in an effort to increase the stock price. The behavior increases the probability of more financial turmoil and ultimately, bankruptcy. Which of the following stakeholders will be hurt most directly by this behavior?

a. bondholders

b. competitors

c. environment

d. shareholders

*ANSWER:* a
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 8:45 AM
*DATE MODIFIED:* 7/24/2019 9:04 AM

13. Companies place forth a "Code of Conduct" for employees to follow in order to promote:

a. ethical conduct

b. legal conduct

c. societal norms

d. profit maximization

*ANSWER:* a
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 8:56 AM
*DATE MODIFIED:* 7/24/2019 9:05 AM

14. The CFP Board has a code a "Code of Ethics and Professional Responsibility" for financial planners to uphold based which of the following pillars:

a. fairness

b. diligence

c. confidentiality

d. all of the above

*ANSWER:* d
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 8:59 AM
*DATE MODIFIED:* 7/24/2019 9:06 AM

15. The introduction of robots to streamline production and increase profits may hurt which of the following stakeholders?

a. shareholders

b. bondholders

c. suppliers

d. employees

*ANSWER:* d
*POINTS:* 1

*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 9:01 AM
*DATE MODIFIED:* 7/24/2019 9:07 AM

16. The decision to move a corporate domicile abroad in an effort to reduce tax burden will benefit which of the following stakeholders?
    a. shareholders
    b. government
    c. competitors
    d. all of the above

*ANSWER:* a
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 9:04 AM
*DATE MODIFIED:* 7/24/2019 9:08 AM



17. The decision to move a corporate domicile abroad in an effort to reduce tax burden will hurt which of the following stakeholders?
    a. shareholders
    b. bondholders
    c. government
    d. employees

*ANSWER:* c
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 9:06 AM
*DATE MODIFIED:* 7/24/2019 9:08 AM

18. A company which pays current investors with the funds of new investors is an example of which of the following:
    a. Ponzi scheme
    b. bootstrapping
    c. Monte Carlo simulation
    d. crowd funding

*ANSWER:* a
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 9:08 AM
*DATE MODIFIED:* 7/24/2019 9:09 AM

19. Bernie Madoff defrauded investors through the use of which of the following:
    a. Ponzi scheme
    b. bootstrapping

c. Monte Carlo simulation

d. crowd funding

*ANSWER:* a
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 9:11 AM
*DATE MODIFIED:* 7/24/2019 9:09 AM

20. The narrowest view of considering stakeholders when making decisions puts the interest of which stakeholder above others?

a. employees

b. shareholders

c. suppliers

d. customers

*ANSWER:* b
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 10:21 AM
*DATE MODIFIED:* 7/24/2019 9:10 AM

21. Ethical behavior will often involve considering the impact of corporate actions on which of the following?

a. shareholders

b. employees

c. customers

d. all of the above

*ANSWER:* d
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 10:43 AM
*DATE MODIFIED:* 7/24/2019 9:11 AM

22. Tying compensation to performance could potentially cause which of the following agency problems?

a. A corporation acquires a series of smaller companies to boost revenue

b. Fund managers engage in excessively risky behavior

c. Both a and b

d. Neither a nor b

*ANSWER:* c
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 10:45 AM
*DATE MODIFIED:* 7/24/2019 9:12 AM

23. Shifting factories abroad to reduce employee costs negatively affects which of the following stakeholders:
a. shareholders
b. communities where factories currently reside
c. bondholders
d. customers

*ANSWER:* b
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 10:52 AM
*DATE MODIFIED:* 7/24/2019 9:12 AM

24. When broadly including stakeholder interests, shifting factories abroad to reduce employee costs may be considered:
a. illegal and unethical
b. legal and ethical
c. legal but unethical
d. illegal but ethical

*ANSWER:* c
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 10:57 AM
*DATE MODIFIED:* 7/24/2019 9:13 AM

25. Events before and during the financial crisis arose in part because of:
a. agency problems
b. unethical behavior
c. illegal behavior
d. all of the above

*ANSWER:* d
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 12:13 PM
*DATE MODIFIED:* 7/24/2019 9:13 AM

26. Which of the following firms were involved in corporate scandals?
a. Enron
b. AIG
c. WorldCom
d. all of the above

*ANSWER:* d
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice

*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 12:32 PM
*DATE MODIFIED:* 7/24/2019 9:14 AM

27. Bernie Madoff's firm defrauded investors out of:
    a. $64.8 million
    b. $648 million
    c. $64.8 billion
    d. $648 billion

*ANSWER:* c
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 12:35 PM
*DATE MODIFIED:* 7/24/2019 9:14 AM

28. A golfer calling a penalty on herself when no one could have determined a penalty occurred is in line with which of the following approaches to ethics?
    a. social norms, if the "society" here is the golfing community
    b. character based
    c. universal rules
    d. all of the above

*ANSWER:* d
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 12:42 PM
*DATE MODIFIED:* 7/24/2019 9:18 AM

29. Deontology is another expression for which approach to ethics:
    a. character based
    b. social norms
    c. universal rules
    d. outcome based

*ANSWER:* c
*POINTS:* 1
*QUESTION TYPE:* Multiple Choice
*HAS VARIABLES:* False
*DATE CREATED:* 7/22/2019 12:46 PM
*DATE MODIFIED:* 7/24/2019 9:18 AM

30. Management of a troubled company decides to liquidate assets in order to make interest payments to bondholders. While necessary to stave off bankruptcy, which stakeholder may negatively view this action?
    a. bondholders
    b. employees
    c. environment

d. shareholders

| | |
|---|---|
| *ANSWER:* | d |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Multiple Choice |
| *HAS VARIABLES:* | False |
| *DATE CREATED:* | 7/22/2019 12:51 PM |
| *DATE MODIFIED:* | 7/24/2019 9:19 AM |

**Completion**

31. The concept of agency is where one party, the agent, is expected to act on behalf of another party, the ______________.

| | |
|---|---|
| *ANSWER:* | principal |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Completion |
| *HAS VARIABLES:* | False |
| *STUDENT ENTRY MODE:* | Basic |
| *DATE CREATED:* | 7/21/2019 8:27 PM |
| *DATE MODIFIED:* | 7/24/2019 9:29 AM |

32. The concept of _____________ entails placing another's interests before your own.

| | |
|---|---|
| *ANSWER:* | fiduciary duty |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Completion |
| *HAS VARIABLES:* | False |
| *STUDENT ENTRY MODE:* | Basic |
| *DATE CREATED:* | 7/22/2019 8:25 AM |
| *DATE MODIFIED:* | 7/24/2019 9:29 AM |

33. As companies operate abroad, ___________ plays a role in ethical considerations.

| | |
|---|---|
| *ANSWER:* | culture |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Completion |
| *HAS VARIABLES:* | False |
| *STUDENT ENTRY MODE:* | Basic |
| *DATE CREATED:* | 7/23/2019 9:03 AM |
| *DATE MODIFIED:* | 7/24/2019 9:29 AM |

34. A solution to the agency problem is to align the _________ of the agency with that of the principal.

| | |
|---|---|
| *ANSWER:* | incentives<br>interests |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Completion |
| *HAS VARIABLES:* | False |
| *STUDENT ENTRY MODE:* | Basic |
| *DATE CREATED:* | 7/23/2019 9:19 AM |

*DATE MODIFIED:* 7/24/2019 9:32 AM

35. Companies such as J.P. Morgan have a(n) _______________ for financial professionals to establish an ethical standard.

| | |
|---|---|
| *ANSWER:* | internal code of conduct<br>code of ethics |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Completion |
| *HAS VARIABLES:* | False |
| *STUDENT ENTRY MODE:* | Basic |
| *DATE CREATED:* | 7/23/2019 9:21 AM |
| *DATE MODIFIED:* | 7/24/2019 9:32 AM |

**Objective Short Answer**

36. Management of a troubled company decides to liquidate assets in order to make interest payments to bondholders. While necessary to stave off bankruptcy, which stakeholder would benefit from this action?

| | |
|---|---|
| *ANSWER:* | bond holder<br>employee<br>customer |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Objective Short Answer |
| *HAS VARIABLES:* | False |
| *STUDENT ENTRY MODE:* | Basic |
| *DATE CREATED:* | 7/22/2019 1:22 PM |
| *DATE MODIFIED:* | 7/24/2019 9:33 AM |

37. Pharmaceutical companies, in their sale of opiods, should balance the benefits to shareholders with the potential harm to _____________.

| | |
|---|---|
| *ANSWER:* | customers<br>patients |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Objective Short Answer |
| *HAS VARIABLES:* | False |
| *STUDENT ENTRY MODE:* | Basic |
| *DATE CREATED:* | 7/23/2019 9:04 AM |
| *DATE MODIFIED:* | 7/24/2019 9:33 AM |

38. As companies build factories abroad, they should balance the benefits of cheaper labor with the ethical treatment of ________________.

| | |
|---|---|
| *ANSWER:* | employees |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Objective Short Answer |
| *HAS VARIABLES:* | False |
| *STUDENT ENTRY MODE:* | Basic |
| *DATE CREATED:* | 7/23/2019 9:09 AM |
| *DATE MODIFIED:* | 7/24/2019 9:34 AM |

39. Which large financial firm went bankrupt during the financial crisis of 2008-2009?

| | |
|---|---|
| *ANSWER:* | Lehman Brothers |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Objective Short Answer |
| *HAS VARIABLES:* | False |
| *STUDENT ENTRY MODE:* | Basic |
| *DATE CREATED:* | 7/23/2019 9:11 AM |
| *DATE MODIFIED:* | 7/24/2019 9:34 AM |

40. Under a broad view of considering other groups beyond shareholders, list three stakeholders to which companies have a responsibility?

| | |
|---|---|
| *ANSWER:* | employees<br>customers<br>communities<br>governments<br>suppliers |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Objective Short Answer |
| *HAS VARIABLES:* | False |
| *STUDENT ENTRY MODE:* | Basic |
| *DATE CREATED:* | 7/23/2019 9:13 AM |
| *DATE MODIFIED:* | 7/24/2019 9:36 AM |

**Essay**

41. Under the narrow view of incorporating stakeholder interests, explain why a firm may consider the interests of costumers.

| | |
|---|---|
| *ANSWER:* | Under the narrow view of stakeholder interests, the firm is concerned primarily with shareholder interests and profit maximization. The firm would consider consumers to the extent that neglecting their interests could harm future sales or impair corporate reputation and ultimately affect the profits of the firm. |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Essay |
| *HAS VARIABLES:* | False |
| *STUDENT ENTRY MODE:* | Basic |
| *DATE CREATED:* | 7/23/2019 10:00 AM |
| *DATE MODIFIED:* | 7/24/2019 9:37 AM |

42. Describe the concept of fiduciary duty and explain one instance where a financial advisor should place the client's interests ahead of her own.

| | |
|---|---|
| *ANSWER:* | Fiduciary duty is the duty of the employee and firm to put the client's interests ahead of one's own. For example, if a financial advisor and a client each hold shares in a firm, and the advisor strongly believes the firm is about to undergo financial distress, the advisor should inform the customer and act on the client's interests before selling any of her own shares. |
| *POINTS:* | 1 |
| *QUESTION TYPE:* | Essay |

*HAS VARIABLES:* False
*STUDENT ENTRY MODE:* Basic
*DATE CREATED:* 7/23/2019 10:10 AM
*DATE MODIFIED:* 7/24/2019 9:38 AM

43. List and describe the main approaches to ethics.

*ANSWER:* 1. Outcome based: The actions which would produce the most desirable of outcomes are taken.

2. Universal rules: One must abide by a governing set of rules.

3. Character based: One's actions is guided by one's identity and moral code.

4. Social norms: The social norms approach to ethics is governed by what is generally acceptable by society.

*POINTS:* 1
*QUESTION TYPE:* Essay
*HAS VARIABLES:* False
*STUDENT ENTRY MODE:* Basic
*DATE CREATED:* 7/23/2019 12:48 PM
*DATE MODIFIED:* 7/24/2019 9:38 AM

44. Some politicians have called for a tax on the use of robots. Give one reason for and against this tax.

*ANSWER:* One reason for this tax is for the government to collect revenue to help retrain displaced workers and force firms to consider the impact on employees in their efforts to automate. A reason to oppose this tax is that it interferes with a firm's efforts to maximize profits and shareholder value, and is essentially a tax on innovation and technological improvements.

*POINTS:* 1
*QUESTION TYPE:* Essay
*HAS VARIABLES:* False
*STUDENT ENTRY MODE:* Basic
*DATE CREATED:* 7/23/2019 12:59 PM
*DATE MODIFIED:* 7/23/2019 1:05 PM

45. A city is considering building a new stadium in an effort to entice a professional sports team to relocate to the city. Give an example of a constituency in the city which may be helped and harmed by the construction of the stadium built by the city.

*ANSWER:* Groups within the city which most likely would be helped by the stadium (other than the sports team) are the local businesses which populate the area near the stadium and the construction companies and employees which may be employed by the city to build the stadium.

Groups within the city which may be hurt by the stadium are children and the elderly which rely on city funding for improvements to schools, transportation, and progarms.

*POINTS:* 1
*QUESTION TYPE:* Essay
*HAS VARIABLES:* False
*STUDENT ENTRY MODE:* Basic
*DATE CREATED:* 7/23/2019 1:06 PM

*DATE MODIFIED:* 7/23/2019 1:12 PM

46. Jane is selling her house and there is structural damage in the corner of a room. She places a large couch and table in this corner to obscure it. Is this ethical?

*ANSWER:* An outcome based argument justifying this behavior as ethical would argue that the buyer has the right to inspect the premises with and without a certified inspector and so perhaps there is no duty to disclose this as no fiduciary duty exists between a buyer and seller of real estate.

A character based argument justifying this as unethical would cite the fact that the seller knows of the defect and intentionally attempts to deceive the buyer by hiding the damage.

*POINTS:* 1
*QUESTION TYPE:* Essay
*HAS VARIABLES:* False
*STUDENT ENTRY MODE:* Basic
*DATE CREATED:* 7/23/2019 8:44 PM
*DATE MODIFIED:* 7/23/2019 8:53 PM



47. Jane is selling her house and there is structural damage to the gas line entering the house. Knowing that this damage could potentially cause an explosion, she hides the damage. Is this ethical?

*ANSWER:* Only a very strict outcome based argument would justify this behavior.

A universal rules, character based and social norms argument would deem this unethical as a duty to disclose the potentially harmful defect exists.

*POINTS:* 1
*QUESTION TYPE:* Essay
*HAS VARIABLES:* False
*STUDENT ENTRY MODE:* Basic
*DATE CREATED:* 7/23/2019 8:53 PM
*DATE MODIFIED:* 7/23/2019 8:57 PM

48. What is an example of an illegal act you consider ethical. Why?

*ANSWER:* This answer could vary wildly. Justifying underage drinking, marijuana use in a state which has not legalized it, or even assisted suicide where a person has a terminal condition are possible answers.

*POINTS:* 1
*QUESTION TYPE:* Essay
*HAS VARIABLES:* False
*STUDENT ENTRY MODE:* Basic
*DATE CREATED:* 7/23/2019 8:58 PM
*DATE MODIFIED:* 7/24/2019 9:40 AM

49. Is it ethical to take performance enhancing drugs in order to sign a professional sports contract if you knew that most athletes took them but they were against the league rules?

*ANSWER:* An argument deeming the behavior unethical could be virtue based, where cheating is wrong regardless of others' actions, or universal rules based, where one has a duty to act in accordance with the rules.

An argument deeming the behavior ethical could by social norms based, if one views "society" in this case as the athletes competing in the sport, or outcome based, since the athlete is acting in line with others and using the drugs would ultimately benefit him/her.

*POINTS:* 1
*QUESTION TYPE:* Essay
*HAS VARIABLES:* False
*STUDENT ENTRY MODE:* Basic
*DATE CREATED:* 7/24/2019 8:48 AM
*DATE MODIFIED:* 7/24/2019 9:41 AM

50. Which ethical system would you choose? Why?

*ANSWER:* The answer here depends on the system chosen.
*POINTS:* 1
*QUESTION TYPE:* Essay
*HAS VARIABLES:* False
*STUDENT ENTRY MODE:* Basic
*DATE CREATED:* 7/24/2019 8:56 AM
*DATE MODIFIED:* 7/24/2019 8:58 AM