Corporate Finance (Canadian) 5th edition Berk Test Bank

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MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) A sole proprietorship is owned by:
   A) two or more people
   B) one person
   C) shareholders
   D) bankers

   Answer: B

2) In Canada, which of the following organization forms accounts for the greatest number of firms?
   A) Limited Partnership
   B) Limited Liability Partnership
   C) Publicly Traded Corporation
   D) Sole Proprietorship

   Answer: D

3) Which of the following organization forms earns the most revenue?
   A) Publicly Owned Corporation
   B) Limited Liability Company
   C) Limited Partnership
   D) Privately Owned Corporation

   Answer: A

4) Which of the following is NOT an advantage of a sole proprietorship?
   A) Ease of setup
   B) Limited liability
   C) No separation of ownership and control
   D) Single taxation

   Answer: B

5) Which of the following statements regarding limited partnerships is TRUE?
   A) A limited partner is not liable until all of the assets of the general partners have been exhausted.
   B) There is no limit on a limited partner's liability.
   C) A general partner's liability is limited by the amount of his investment.
   D) A limited partner's liability is limited by the amount of his investment.

   Answer: D

6) Which of the following is/are an advantage(s) of incorporation?
   A) Limited liability
   B) Unlimited life
   C) Access to capital markets
   D) All of the above

   Answer: D

7) In Canada, a limited liability partnership, LLP, is essentially:
   A) a limited partnership without a general partner
   B) just another name for a corporation
   C) a limited partnership without limited partners
   D) just another name for a limited partnership

   Answer: A

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8) In Canada, which of the following business organization forms cannot avoid double taxation?
A) Limited Liability Company
B) Privately Owned Corporation
C) Publicly Traded Corporation
D) Limited Partnership

Answer: C

9) In Canada, the dividend tax credit gives some relief by:
A) effectively giving a tax rate of zero on dividend income compared to other sources of income
B) effectively giving a higher tax rate on dividend income than on other sources of income
C) effectively giving a lower tax rate on dividend income than on other sources of income
D) effectively giving the same tax rate on dividend income as on other sources of income

Answer: C

10) Which of the following statements is most correct?
A) Corporations face more regulations when compared to partnerships.
B) An advantage of a corporation is that it is subject to double taxation.
C) Unlike a partnership, a disadvantage of a corporation is that it has limited liability.
D) An advantage to incorporation is that it allows for less regulation of the business.

Answer: A

11) In Canada, the distinguishing feature of a corporation is that:
A) it spreads liability for its corporate obligations to all shareholders
B) there is no legal difference between the corporation and its owners
C) it is a legally defined, artificial being, separate from its owners
D) it provides limited liability only to small shareholders

Answer: C

12) Which of the following is/are subject to double taxation in Canada?
A) Partnership
B) Corporation
C) Sole proprietorship
D) Both A and B

Answer: B

13) Canada Revenue Agency, CRA, allows an exemption from double taxation for certain flow through entities where all income produced by the business flows to the investors and virtually no earnings are retained within the business. These entities are called:
A) Income Trust Corporations
B) Canadian Controlled Corporations
C) Foreign Controlled Corporations
D) Canadian Federal Crown Corporations

Answer: A

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14) In 2006, the Canadian government effectively neutralized the tax advantages that had existed for most income trusts, relative to firms set up as corporations. The advantages that existed for income trusts prior to these changes were that:
A) while double taxation existed for both income trusts and corporations, the net tax paid by income trust unit holders was in most cases less than that paid by corporate shareholders
B) income trusts avoided double taxation in that the Canada Revenue Agency did not collect corporate taxes but rather collected only personal taxes from income trust unit holders
C) income trusts effectively afforded unlimited liability to unit holders while corporate shareholders could face unlimited liability
D) the changes introduced in 2006 eliminated double taxation for corporations, thereby making the taxation of income trusts and corporations substantially equivalent

Answer: B

15) One of the major characteristics of a limited liability partnership, LLP, in Canada is:
A) any partner will not be liable for his or her negligence at any time
B) the limitation on a partner's liability is only in cases related to actions of negligence by other partners or those supervised by other partners
C) any partners will be only liable for other partners' negligence
D) none of the above

Answer: B

16) You own 100 shares of a publicly traded Canadian Corporation. The corporation earns $5.00 per share before taxes. Once the corporation has paid any corporate taxes that are due, it will distribute the rest of its earnings to its shareholders in the form of a dividend. If the corporate tax rate is 40% and your personal tax rate on (both dividend and non–dividend) income is 30%, then how much money is left for you after all taxes have been paid?
A) $210
B) $300
C) $350
D) $500

Answer: A

17) You own 100 shares of a Canadian Income Trust Corporation. The corporation earns $5.00 per share before taxes. Once the corporation has paid any corporate taxes that are due, it will distribute the rest of its earnings to its shareholders in the form of a dividend. If the corporate tax rate is 40% and your personal tax rate on (both dividend and non–dividend) income is 30%, then how much money is left for you after all taxes have been paid?
A) $210
B) $300
C) $350
D) $500

Answer: C

18) You are a shareholder in a publicly owned corporation. This corporation earns $4 per share before taxes. After it has paid taxes, it will distribute the remainder of its earnings to you as a dividend. The dividend is income to you, so you will then pay taxes on these earnings. The corporate tax rate is 35% and your tax rate on dividend income is 15%. The effective tax rate on your share of the corporation's earnings is closest to:
A) 15%
B) 35%
C) 45%
D) 50%

Answer: C

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ESSAY. Write your answer in the space provided or on a separate sheet of paper.

19) Explain the benefits of incorporation.

Answer: 1. Limited liability
2. Unlimited life
3. Access to capital markets / availability of outside funding
4. Required transparency in financial information disclosure

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

20) The person charged with running the corporation by instituting the rules and policies set by the board of directors is called:
A) the Chief Financial Officer
B) the Chief Operating Officer
C) the Chief Executive Officer
D) the Company President

Answer: C

21) The Principal–Agent Problem arises:
A) because of the separation of ownership and control in a corporation
B) because managers have little incentive to work in the interest of shareholders when this means working against their own self–interest
C) Both A and B
D) None of the above

Answer: C

22) In a corporation, the ultimate decisions regarding business matters are made by:
A) investors
B) the Board of Directors
C) shareholders
D) debt holders

Answer: B

23) One of the major reasons that corporations have a principal–agent problem is that:
A) there is a lack of communication between the owners and the management team
B) direct control and ownership are often separate
C) management is less transparent
D) they have an inefficient and incompetent management team

Answer: B

24) The ultimate goal of financial management in corporations is:
A) to maximize annual profit
B) to maximize shareholder wealth
C) to maximize the benefit of the employees
D) to maximize the interest of the communities

Answer: B

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25) Corporate social responsibility can be described as:
A) dependence on laws and regulations to define the goals of the corporation
B) operating in the best interest of shareholders and stakeholders dependant of corporate profits
C) tempering the absolute profit criteria to reflect the broader impact of its operations
D) actively seeking to inform society about the corporation's strategic goal

Answer: C

26) If shareholders are unhappy with a CEO's performance, they are most likely to:
A) file a shareholder resolution
B) sell their shares
C) replace the CEO through a grassroots shareholder uprising
D) buy more shares in an effort to gain control of the firm

Answer: B

27) A _____ is when a rich individual or organization purchases a large fraction of the stock of a poorly performing firm and in doing so gets enough votes to replace the board of directors and the CEO.
A) leveraged buyout
B) hostile takeover
C) shareholder proposal
D) shareholder action

Answer: B

28) Which of the following statements is FALSE?
A) In bankruptcy, management is given the opportunity to reorganize the firm and renegotiate with debt holders.
B) If the corporation fails to satisfy debt holders' claims, equity holders may take control of the firm.
C) Because a corporation is a separate legal entity, when it fails to repay its debts, the people who lent to the firm (the debt holders) are entitled to seize the assets of the corporation in compensation for the default.
D) As long as the corporation can satisfy the claims of the debt holders, ownership remains in the hands of the equity holders.

Answer: B

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

29) What strategies are available to shareholders to help ensure that managers are motivated to act in the interest of the shareholders rather than their own interest?

Answer: 1. The threat of a hostile takeover
2. Shareholder initiatives
3. Performance–based compensation

30) Why appropriate public policies and regulations are required to strike a balance between corporate interests and social interests?

Answer: At times, decisions to increase shareholders' wealth may be costly for the society as a whole. For example, think of a corporation that, in course of doing business, pollutes environment and does not pay for the costs to clean up the pollution. In such cases, appropriate public policies and regulations are required to ensure that corporate interest and public interest are aligned. Public policies may be designed and regulations are put in place to make such corporations financially responsible for environmental pollution and incentivize positive action to curb pollution.

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MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

31) In 2018, what position was the Toronto Stock Exchange, TSX, ranked based on the value of trades in U.S. dollars?
A) The 20th position
B) The 11th position
C) The 8th position
D) None of the above

Answer: B

32) Which of the following statements is correct?
A) The TSX is an electronic exchange and investors can post orders onto the TSX trading system from anywhere in Canada.
B) The TSX is an electronic exchange and investors can post orders onto the TSX trading system from anywhere in Toronto.
C) The TSX is an electronic exchange and investors can post orders onto the TSX trading system from anywhere in North America.
D) The TSX is an electronic exchange and investors can post orders onto the TSX trading system from anywhere in the world.

Answer: D

33) Stocks trading in a large electronic exchange such as the TSX will normally:
A) experience a wide bid–ask range
B) incur high transaction costs
C) be thinly traded
D) experience a narrow bid–ask range

Answer: D

34) In 2018, what position was the Toronto Stock Exchange, TSX, ranked based on domestic market capitalization in U.S. dollars?
A) The 20th position
B) The 14th position
C) The 10th position
D) None of the above

Answer: C

35) The two common measures used to rank stock markets worldwide are:
A) the total value of all domestic corporations listed on the exchange and the total number of shares traded on the exchange at the end of each year
B) the total number of all domestic corporations listed on the exchange and the total value of the volume of shares traded on the exchange at the end of each year
C) the total value of all domestic corporations listed on the exchange and the total value of the volume of shares traded on the exchange at the end of each year
D) the total value of all foreign corporations listed on the exchange and the total value of the volume of shares traded on the exchange at the end of each year

Answer: C

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36) In 2018, the largest stock market by domestic capitalization in the world was:
A) the American Stock Exchange
B) the New York Stock Exchange
C) the London Stock Exchange
D) the NASDAQ

Answer: B

37) An investment is said to be liquid if the investment:
A) is traded on a stock exchange
B) can easily be converted into cash
C) has large day–to–day fluctuations in price
D) has a large bid–ask spread

Answer: B

38) In 2018, the largest stock market by value of shares traded in the world was:
A) the Shanghai Stock Exchange
B) the London Stock Exchange
C) the American Stock Exchange
D) the NASDAQ

Answer: A

39) What type of company trades on an organized stock exchange?
A) A private company
B) A limited liability company
C) A crown corporation
D) A public company

Answer: D

40) Which of the following statements is FALSE?
A) Bid prices exceed ask prices.
B) On the NASDAQ, stocks can and do have multiple market makers who compete with each other. Each market maker must post bid and ask prices in the NASDAQ network where they can be viewed by all participants.
C) Because customers always buy at the ask price and sell at the bid price, the bid–ask spread is a transaction cost investors have to pay in order to trade.
D) On the floor of the NYSE, market makers (known on the NYSE as specialists) match buyers and sellers.

Answer: A

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Use the table for the question(s) below.

Consider the following two quotes for XYZ stock:

November 11th		November 18th	
Ask:	25.25	Ask:	26.00
Bid:	25.20	Bid:	25.93

41) How much would you have to pay to purchase 100 shares of XYZ stock on November 18th?
A) $2,520
B) $2,525
C) $2,593
D) $2,600

Answer: D

42) How much would you receive if you sold 200 shares of XYZ stock on November 11th?
A) $5,200
B) $5,050
C) $5,040
D) $5,186

Answer: C

43) Which of the following statements about dark pools is FALSE?
A) Dark pools do not make their limit order books visible.
B) When dark pools are included, researchers estimate that in the United States alone there could be as many as 50 venues in which to trade stocks.
C) Dark pools offer investors the ability to trade at a better price.
D) Dark pools offer investors the opportunity to fill their orders immediately.

Answer: D

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

Use the table for the question(s) below.

Consider the following two quotes for XYZ stock:

November 11th		November 18th	
Ask:	25.25	Ask:	26.00
Bid:	25.20	Bid:	25.93

44) What are your net proceeds if you purchased 2,500 shares of XYZ stock on November 11th and then sold them a week later on November 18th?

Answer: Sell at bid price 11/18 = 2,500 × $25.93 = $64,825
Now subtract the price paid for the shares.
Buy at ask price 11/11 = 2,500 × $25.25 = $63,125
So net proceeds = $64,825 – $63,125 = $1,700
Your net proceeds are $1,700.

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45) Explain the main differences between the NYSE and NASDAQ stock markets.

Answer: Key points:
NYSE has a physical location—NASDAQ is an electronic market.
NYSE has one specialist in each stock and his role is to match buyers and sellers.
NASDAQ has multiple market makers (dealers) in each stock who stand ready to trade on their own accounts.

46) How do high frequency traders (HFTs) make money?

Answer: HFTs place, update, cancel and execute trades many times per second in response to new information as well as other orders, making money both by providing liquidity and by taking advantage of stale limit orders.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

47) Blockchain technology allows a transaction to be recorded in a publicly verifiable way:
A) using a proprietary software developed by Microsoft Corp.
B) without the need for a trusted third party to certify the authenticity of the transaction
C) through a central clearing system used by all registered financial institutions
D) with the help of a government authority that authenticates each transaction

Answer: B

48) Which of following statements is FALSE for cryptocurrencies?
A) Creation and ownership of a cryptocurrency is determined via a public blockchain.
B) Individuals verify cryptocurrency transactions digitally.
C) Cryptocurrencies can be exchanged for US dollars.
D) Bitcoin is a cryptocurrency.

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

49) How are robo–advisors disrupting investment advising services?

Answer: Investment advising services are being disrupted through automation with the recent growth in robo–advisors. Financial institutions have been increasingly using computer programs to replace human advisors to provide detailed and customized investment recommendations to customers.

50) Give some examples of the use of machine learning algorithms in the financial industry.

Answer: Some examples:
– Sophisticated pattern recognition software developed by companies like Renaissance Technology and D.E. Shaw predicted very short–term stock price movements successfully.
– Lenders are using algorithms to go beyond basic credit scores to make improved lending decisions.
– Insurance providers are using "Big data" to structure the insurance products they offer.

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1) B
ID: cf5bc 1.1–1
Diff: 1
Objective:

2) D
ID: cf5bc 1.1–2
Diff: 1
Objective:

3) A
ID: cf5bc 1.1–3
Diff: 1
Objective:

4) B
ID: cf5bc 1.1–4
Diff: 2
Objective:

5) D
ID: cf5bc 1.1–5
Diff: 2
Objective:

6) D
ID: cf5bc 1.1–6
Diff: 2
Objective:

7) A
ID: cf5bc 1.1–7
Diff: 1
Objective:

8) C
ID: cf5bc 1.1–8
Diff: 1
Objective:

9) C
ID: cf5bc 1.1–9
Diff: 1
Objective:

10) A
ID: cf5bc 1.1–10
Diff: 2
Objective:

11) C
ID: cf5bc 1.1–11
Diff: 2
Objective:

12) B
ID: cf5bc 1.1–12
Diff: 1
Objective:

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13) A
ID: cf5bc 1.1–13
Diff: 1
Objective:

14) B
ID: cf5bc 1.1–14
Diff: 2
Objective:

15) B
ID: cf5bc 1.1–15
Diff: 2
Objective:

16) A
ID: cf5bc 1.1–16
Diff: 3
Objective:

17) C
ID: cf5bc 1.1–17
Diff: 3
Objective:

18) C
ID: cf5bc 1.1–18
Diff: 3
Objective:

19) 1. Limited liability
2. Unlimited life
3. Access to capital markets / availability of outside funding
4. Required transparency in financial information disclosure
ID: cf5bc 1.1–19
Diff: 2
Objective:

20) C
ID: cf5bc 1.2–1
Diff: 1
Objective:

21) C
ID: cf5bc 1.2–2
Diff: 1
Objective:

22) B
ID: cf5bc 1.2–3
Diff: 1
Objective:

23) B
ID: cf5bc 1.2–4
Diff: 2
Objective:

24) B
ID: cf5bc 1.2–5
Diff: 2
Objective:

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25) C
ID: cf5bc 1.2–6
Diff: 2
Objective:

26) B
ID: cf5bc 1.2–7
Diff: 2
Objective:

27) B
ID: cf5bc 1.2–8
Diff: 3
Objective:

28) B
ID: cf5bc 1.2–9
Diff: 3
Objective:

29) 1. The threat of a hostile takeover
2. Shareholder initiatives
3. Performance–based compensation
ID: cf5bc 1.2–10
Diff: 3
Objective:

30) At times, decisions to increase shareholders' wealth may be costly for the society as a whole. For example, think of a corporation that, in course of doing business, pollutes environment and does not pay for the costs to clean up the pollution. In such cases, appropriate public policies and regulations are required to ensure that corporate interest and public interest are aligned. Public policies may be designed and regulations are put in place to make such corporations financially responsible for environmental pollution and incentivize positive action to curb pollution.
ID: cf5bc 1.2–11
Diff: 3
Objective:

31) B
ID: cf5bc 1.3–1
Diff: 1
Objective:

32) D
ID: cf5bc 1.3–2
Diff: 1
Objective:

33) D
ID: cf5bc 1.3–3
Diff: 2
Objective:

34) C
ID: cf5bc 1.3–4
Diff: 1
Objective:

35) C
ID: cf5bc 1.3–5
Diff: 3
Objective:

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36) B
ID: cf5bc 1.3–6
Diff: 1
Objective:

37) B
ID: cf5bc 1.3–7
Diff: 2
Objective:

38) A
ID: cf5bc 1.3–8
Diff: 2
Objective:

39) D
ID: cf5bc 1.3–9
Diff: 1
Objective:

40) A
ID: cf5bc 1.3–10
Diff: 2
Objective:

41) D
ID: cf5bc 1.3–11
Diff: 1
Objective:

42) C
ID: cf5bc 1.3–12
Diff: 2
Objective:

43) D
ID: cf5bc 1.3–13
Diff: 3
Objective:

44) Sell at bid price 11/18 = 2,500 × $25.93 = $64,825
Now subtract the price paid for the shares.
Buy at ask price 11/11 = 2,500 × $25.25 = $63,125
So net proceeds = $64,825 – $63,125 = $1,700
Your net proceeds are $1,700.
ID: cf5bc 1.3–14
Diff: 3
Objective:

45) Key points:
NYSE has a physical location—NASDAQ is an electronic market.
NYSE has one specialist in each stock and his role is to match buyers and sellers.
NASDAQ has multiple market makers (dealers) in each stock who stand ready to trade on their own accounts.
ID: cf5bc 1.3–15
Diff: 3
Objective:

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46) HFTs place, update, cancel and execute trades many times per second in response to new information as well as other orders, making money both by providing liquidity and by taking advantage of stale limit orders.
ID: cf5bc 1.3–16
Diff: 2
Objective:

47) B
ID: cf5bc 1.4–1
Diff: 2
Objective:

48) C
ID: cf5bc 1.4–2
Diff: 3
Objective:

49) Investment advising services are being disrupted through automation with the recent growth in robo–advisors. Financial institutions have been increasingly using computer programs to replace human advisors to provide detailed and customized investment recommendations to customers.
ID: cf5bc 1.4–3
Diff: 2
Objective:

50) Some examples:
– Sophisticated pattern recognition software developed by companies like Renaissance Technology and D.E. Shaw predicted very short–term stock price movements successfully.
– Lenders are using algorithms to go beyond basic credit scores to make improved lending decisions.
– Insurance providers are using "Big data" to structure the insurance products they offer.
ID: cf5bc 1.4–4
Diff: 1
Objective:

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