Foundations Of Financial Management (Canadian) 13th edition Block Test Bank

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Chapter 01 Test Bank

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) As finance emerged as an analytical, decision-oriented discipline, the initial emphasis was placed on capital acquisitions.
   - ◎ true
   - ◎ false

2) Inflation is assumed to be a temporary problem that does NOT affect financial decisions.
   - ◎ true
   - ◎ false

3) Timing is NOT a particularly important consideration in financial decisions.
   - ◎ true
   - ◎ false

4) Institutional investors have had increasing influence over corporations with their ability to vote large blocks of stock and replace poor performing boards of directors.
   - ◎ true
   - ◎ false

5) Insider trading involves the use of information NOT available to the general public to make profits from trading in a company's shares.
   - ◎ true
   - ◎ false

6) Agency theory assumes that corporate managers act to increase the wealth of corporate shareholders.
   - ◎ true
   - ◎ false

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7) Historically the field of finance as a discipline described capital preservation, liquidity, reorganization, and bankruptcy through the 1930s depression.
   - ◎ true
   - ◎ false

8) The higher the profit of a firm, the higher the value the firm is assured of receiving in the market.
   - ◎ true
   - ◎ false

9) Social responsibility and profit maximization are synonymous.
   - ◎ true
   - ◎ false

10) There is unlimited liability in a general partnership.
   - ◎ true
   - ◎ false

11) In the mid-1950s, finance began to change to a more analytical, decision-oriented approach.
   - ◎ true
   - ◎ false

12) There are some serious problems with the financial goal of maximizing the earnings of the firm.
   - ◎ true
   - ◎ false

13) Maximizing the earnings of the firm is the goal of financial management.
   - ◎ true
   - ◎ false

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14) Because socially desirable goals can impede profitability in many instances, managers should NOT try to operate under the assumption of wealth maximization.
- ◎ true
- ◎ false

15) The sole proprietorship represents single-person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs.
- ◎ true
- ◎ false

16) Profits of sole proprietorships are taxed at corporate tax rates.
- ◎ true
- ◎ false

17) The primary market includes the sale of securities by way of initial public offerings.
- ◎ true
- ◎ false

18) The most common partnership arrangement carries limited liability to the partners.
- ◎ true
- ◎ false

19) A limited partnership limits the profits partners may receive.
- ◎ true
- ◎ false

20) Dividends paid to corporate shareholders have already been taxed once as corporate income.
- ◎ true
- ◎ false

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21) One advantage of the corporate form of organization is that income received by shareholders is NOT taxable since the corporation already paid taxes on the income distributed.
- ◎ true
- ◎ false

22) Recently, the emphasis of financial management has been on the relationships between risk and return.
- ◎ true
- ◎ false

23) The formation of a corporation is a way to circumvent personal liability.
- ◎ true
- ◎ false

24) The secondary market characteristically has had stable prices over the past 20 years.
- ◎ true
- ◎ false

25) The first Nobel Prizes given to finance professors was for their contributions to capital structure theory and portfolio theories of risk and return.
- ◎ true
- ◎ false

26) Financial markets exist as a vast global network of individuals and financial institutions that may be lenders, borrowers, or owners of public companies worldwide.
- ◎ true
- ◎ false

27) Inflation has led to phantom profits and undervalued assets.
- ◎ true
- ◎ false

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28) Money markets refer to those markets dealing with short-term securities having a life of one year or less.
- ◎ true
- ◎ false

29) Capital markets refer to those markets dealing with short-term securities having a life of one year or less.
- ◎ true
- ◎ false

30) New issues are sold in the secondary market.
- ◎ true
- ◎ false

31) Existing securities are traded in the secondary market.
- ◎ true
- ◎ false

32) The financial markets value assets based on the most productive current use.
- ◎ true
- ◎ false

33) Many firms that had diversified to reduce risks as per theory had, by the late 1990s, refocused on their core businesses
- ◎ true
- ◎ false

34) Pension fund managers are taking a more active role in the corporations in which they have an investment and are holding managers accountable.
- ◎ true
- ◎ false

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35) The TSX Composite Index is representative of equity market value of the top listed Canadian companies.

- ◎ true
- ◎ false

36) Commercial paper typically exhibit a higher yield than Treasury bills.

- ◎ true
- ◎ false

37) Agency theory examines the relationship between companies and their customers.

- ◎ true
- ◎ false

38) Honesty in business requires timely and full disclosure of pertinent firm developments.

- ◎ true
- ◎ false

39) Businesses will increasingly rely on B2B Internet applications to speed up cash flows.

- ◎ true
- ◎ false

40) Issues over corporate governance are often agency problems.

- ◎ true
- ◎ false

41) Agency theory examines the relationship between the owners of the firm and the managers of the firm.

- ◎ true
- ◎ false

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42) Secondary markets are the markets that trade previously issued securities.

- ◎ true
- ◎ false

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

43) What is the primary goal of financial management?

A) Increased earnings
B) Maximizing cash flow
C) Maximizing shareholder wealth
D) Minimizing risk of the firm

44) Proper risk-return management means that:

A) the firm should take as few risks as possible.
B) consistent with the objectives of the firm, an appropriate trade-off between risk and return should be determined.
C) the firm should earn the highest return possible.
D) the firm should value future profits more highly than current profits.

45) Some of the effects of high inflation are:

A) the gold standard was eliminated.
B) purchasing power increased.
C) interest rates fall.
D) Phantom profits and undervalued assets.

46) In the past, the study of finance has included:

A) operational efficiency.
B) employee relationships.
C) legal cases.
D) mergers and acquisitions.

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47) A financial manager's goal of maximizing current or short-term earnings may NOT be appropriate because:
A) it considers the timing of the benefits.
B) increased earnings may be accompanied by acceptably higher levels of risk.
C) share ownership is widely dispersed.
D) earnings are subjective; they can be defined in various ways such as accounting or economic earnings.

48) One of the major disadvantages of a sole proprietorship is:
A) that there is unlimited liability to the owner.
B) the simplicity of decision making.
C) low organizational costs.
D) low operating costs.

49) The partnership form of organization:
A) avoids the double taxation of earnings and dividends found in the corporate form of organization.
B) usually provides limited liability to the partners.
C) has unlimited life.
D) simplifies decision making.

50) A corporation is NOT:
A) owned by shareholders who enjoy the privilege of limited liability.
B) easily divisible between owners.
C) a separate legal entity with perpetual life.
D) a separate legal entity with limited life.

51) Inflation:
A) increases corporations' reliance on debt for capital expansion needs.
B) creates larger asset values on the firm's historical balance sheet.
C) makes it cheaper (in terms of interest costs) for firms to borrow money.
D) creates stability for investors.

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52) Which of the following securities is NOT included as part of the capital market?
- A) Common stock
- B) Commercial paper
- C) Government bonds
- D) Preferred stock

53) Maximization of shareholder wealth is a concept in which:
- A) increased earnings are of primary importance.
- B) profits are maximized on a quarterly basis.
- C) virtually all earnings are paid as dividends to common shareholders.
- D) optimally increasing the long-term value of the firm is emphasized.

54) Which of the following is NOT a true statement about the goal of maximizing shareholder wealth?
- A) It takes into account the timing of cash-flows.
- B) It is a short-run point of view which takes risk into account.
- C) It considers risk as a factor.
- D) It is a long-run point of view which takes risk into account.

55) Increased international competition can be seen as a motivator to emphasize:
- A) asset diversification strategies.
- B) the risk side of the risk-return relationship.
- C) the return side of the risk-return relationship.
- D) an increased investment in risky projects.

56) Corporations can reduce portfolio risk by:
- A) narrowing their focus on one successful product.
- B) merging with companies in unrelated industries.
- C) repurchasing their own stock.
- D) selling their own stock.

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57) The shift to the return side of the risk-return relationship has occurred because there has been:
A) a narrower focus on production.
B) an increase in the prevalence of stock splits.
C) a decrease in the use of advanced technology in the production process.
D) an increase in global competition.

58) A corporate buy-back, or the repurchasing of shares, is:
A) an example of balance sheet restructuring.
B) an excellent source of profits when the firm's stock is over-priced.
C) a method of reducing the debt-to-equity ratio.
D) shown as revenue on the income statement.

59) Which of the following is (are) a result of high inflation?
A) Loss from disposal of assets
B) Over-valued liabilities
C) Lower stock price
D) Under-valued assets

60) Institutional investors have more to say about the way publicly owned corporations are managed through their ability to
A) avoid conflicts of interest
B) enhance diversity of opinion
C) maximize residual value
D) replace poorly performing boards of directors

61) Which of the following are NOT one of the drawbacks of selecting profit maximization as the primary goal of the firm?
A) risk may increase as profit changes.
B) accurately measuring profit is almost impossible.
C) profit fails to take into account the timing of benefits.
D) profits are measured using Generally Accepted Accounting Principles (GAAP).

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62) Agency theory deals with the issue of:

A) when to hire an agent to represent the firm in negotiations.
B) the legal liabilities of a firm if an employee, acting as the firm's agent, injures someone.
C) the limitations placed on an employee acting as the firm's agent to obligate or bind the firm.
D) the conflicts that can arise between the viewpoints and motivations of a firm's owners and managers.

63) As mergers, acquisitions, and restructurings have increased in importance, agency theory has become more important in assessing whether:

A) a stock repurchase should be undertaken.
B) shareholder goals are truly being achieved by managers in the long run.
C) managers are actually agents or only employees of the firm.
D) managers and owners are actually the same people with the same interests.

64) Insider trading occurs when:

A) someone has information not available to the public, which they use to profit from trading in stocks.
B) corporate officers buy stock in their company.
C) lawyers, investment dealers, and others buy common stock in companies represented by their firms
D) stock transactions occur with reduced brokerage fees.

65) The major difficulty in most insider-trading cases has been:

A) that lenient judges have simply released the guilty individuals.
B) that insider trading, even though illegal, actually serves a beneficial economic and financial purpose.
C) that inside trading has been hard to prosecute successfully.
D) inside trades actually have a beneficial effect on the wealth of all shareholders.

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66) Setting a goal of profit maximization has all the following drawbacks except:
A) investors understand that generally, more profit is better
B) Risk may increase as profit changes
C) Profit fails to consider the timing of benefits
D) Accurately measuring profit is almost impossible

67) Future financial managers will need to understand:
A) employment standards.
B) production engineering.
C) actuarial calculations.
D) international currency hedging strategies.

68) Professors Harry Markowitz and William Sharpe received their Nobel prize in economics for their contributions to the:
A) options pricing model.
B) theories of working capital management.
C) theories of risk-return and portfolio theory.
D) theories of international capital budgeting.

69) In the 1930s, financial practices did NOT focus on:
A) maintenance of liquidity.
B) reorganization of financially distressed companies.
C) the bankruptcy process.
D) international exchange costs.

70) The increasing percentage ownership of public corporations by institutional investors has:
A) had no effect on corporate management.
B) created higher returns for the stock market in general.
C) created more pressure on public companies to manage their firms more efficiently.
D) taken away the voice of the individual investor.

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71) Money markets would include which of the following securities?
A) Common stock and corporate bonds
B) Treasury bills and commercial paper
C) Certificates of deposit and preferred stock
D) Government bonds.

72) When a corporation uses the financial markets to raise new funds, the sale of securities is made in the:
A) primary market.
B) secondary market.
C) on-line market.
D) third market.

73) Companies that have higher risk than a competitor in the same industry will generally have:
A) to pay a lower interest rate than its competitors.
B) a higher relative stock price than its competitors.
C) a lower cost of funds than its competitors.
D) to pay a higher interest rate than its competitors.

74) The financial markets allocate capital to corporations by:
A) reflecting expectations of the market participants in the corporation's share price.
B) requiring higher returns from companies with lower risk than their competitors.
C) rewarding companies with expected high returns with lower relative stock prices.
D) relying on the opinion of investment dealers.

75) Corporate restructuring has been one result of more institutional ownership. Restructuring can cause:
A) stability in the asset and liabilities of the firm.
B) the purchase of low-profit margin divisions.
C) the promotion of current management and/or large increases in the workforce.
D) changes in the asset and liabilities of the firm.

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76) Corporate restructuring in the late 1990s more often took the form of:
A) leveraged buyouts.
B) mergers to refocus on core businesses.
C) a change in capital structure.
D) addition of senior management.

77) The increase in the internationalization of financial markets has led:
A) to companies searching the global financial markets for high cost funds.
B) to a decrease in Canadian companies listing on the New York Stock Exchange.
C) to a decrease in debt obligations denominated in foreign currency on Canadian corporate balance sheets.
D) to the tasks of the financial manager being reshaped.

78) The internationalization of the financial markets has:
A) allowed firms such as Bombardier to raise capital around the world.
B) raised the cost of capital.
C) forced companies to value everything in U.S. dollars.
D) created ASPE.

79) Increased use of technology has increased corporate efficiency by:
A) increasing the firm's reliance on debt.
B) creating larger asset values on the firm's balance sheet.
C) made it cheaper (in terms of interest costs) for firms to borrow money.
D) creating electronic communication networks.

80) Maximization of shareholder wealth is a concept in which:
A) increased earnings are of primary importance.
B) increased cash flows are of primary importance.
C) increased dividends are of primary importance.
D) increased share price is of primary importance.

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81) Capital structure is:
- A) the relative mix of capital and intangible assets held by the firm.
- B) the relative importance of debt and equity in the firm's financing.
- C) the relative importance of long-term investment decisions.
- D) the terms required to borrow money.

82) Financial markets allocate capital based on:
- A) the pricing mechanism.
- B) the efforts of financial intermediaries.
- C) intervention by the Bank of Canada.
- D) the number of Treasury bills outstanding.

83) Corporate governance is the:
- A) relationship and exercise of oversight by the board of directors of the company.
- B) relationship between the chief financial officer and institutional investors.
- C) operation of the firm by the chief executive officer (CEO) and other senior executives on the management team.
- D) act of strategically directing the company through the board of directors with a focus on social responsibility.

84) Agency theory examines the relationship between:
- A) shareholders of the firm and its investment dealers.
- B) shareholders of the firm and its managers.
- C) the board of directors and large institutional investors.
- D) shareholders of the firm and its transfer agent.

85) Agency theory would imply that conflicts are more likely to occur between management and shareholders when:
- A) the company is owned and operated by the same person.
- B) management acts in the best interests of maximizing shareholder wealth.
- C) the chair of the board of directors is also the chief executive officer (CEO).
- D) the board of directors exerts strong and involved oversight of managers.

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86) The internationalization of the financial markets has:

A) lowered the cost of capital.
B) raised the cost of capital.
C) forced companies to value everything in U.S. dollars.
D) had no effect on the cost of capital.

87) In analysis of a firm's market share value, an investor should NOT consider:

A) the risk inherent in the firm.
B) the time pattern of the firm's earnings and cash flow.
C) the quality and reliability of reported earnings.
D) book value of assets.

88) The increased percentage of ownership of public corporations by institutional investors has:

A) had no effect on corporate management.
B) created higher returns for the stock market in general.
C) created less pressure on public companies to manage their firms more efficiently.
D) increased the ethical standards of management.

89) Economics provides the financial manager with

A) the key measures that influence the corporation's decisions and performance (gross domestic product, industrial production, disposable income, unemployment, inflation, interest rates, taxes).
B) much of the language of finance (assets, liabilities, cash flow).
C) financial data (income statements, balance sheets, statement of cash flows).
D) various performance ratios, such as liquidity, profitability, and asset management ratios.

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90) Accounting provides the financial manager with
- A) an understanding of the institutional structure of our mixed capitalist system (government regulation, Bank of Canada, chartered banks, investment dealers, trusts, insurance companies, financial markets).
- B) a structure for decision making (risk analysis, pricing theory through supply and demand relationships, comparative return analysis).
- C) the key measures that influence the corporation's decisions and performance (gross domestic product, industrial production, disposable income, unemployment, inflation, interest rates, taxes).
- D) financial data (income statements, balance sheets, statement of cash flows).

91) Which of the following is not a proper example of historical events that shows the evolution of Finance as a descriptive discipline?
- A) Capital preservation, liquidity, reorganization, and bankruptcy were described through the 1930s Depression.
- B) The Toronto and Montreal stock exchanges were formed in the 1870s, outlining functions and procedures in raising capital.
- C) The COVID-19 pandemic in 2020 caused worldwide financial difficulties for companies from various sectors.
- D) Accounting scandals (Nortel, Enron, Valeant) and the financial crisis of 2007-08 again led to increased requirements for regulation, disclosure, and better corporate governance.

92) Which of the following is an example that illustrates Finance as a decision-oriented discipline?
- A) Capital budgeting and other sophisticated techniques objectively evaluated long-term decisions (strategies, technologies, real capital) to allocate the firm's scarce resources.
- B) Capital preservation, liquidity, reorganization, and bankruptcy were described through the 1930s Depression.
- C) The Toronto and Montreal stock exchanges were formed in the 1870s, outlining functions and procedures in raising capital.
- D) Accounting scandals (Nortel, Enron, Valeant) and the financial crisis of 2007-08 again led to increased requirements for regulation, disclosure, and better corporate governance.

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93) Which of the following is not a proper example illustrating Finance as a decision-oriented discipline?

A) Capital structure theory, the study of the relative importance of debt and equity in influencing the firm's value, received analytical investigation.
B) Accounting scandals (Nortel, Enron, Valeant) and the financial crisis of 2007-08 again led to increased requirements for regulation, disclosure, and better corporate governance.
C) Sophisticated analysis was applied to other decision-making issues such as cash, inventory management, and other important day-to-day decisions affecting the short- and long-term well-being of the firm.
D) Capital budgeting and other sophisticated techniques objectively evaluated long-term decisions (strategies, technologies, real capital) to allocate the firm's scarce resources.

94) Which of the following statements is not true about how value is determined in financial markets, explained using concepts from Accounting and Economics?

A) 2022, investors valued their ownership position in Shopify, the e-commerce company, as significantly higher than ownership in Canadian Tire. However, the accounting numbers showed that Canadian Tire's book value was over eight times greater than that of Shopify.
B) The financial markets rise or fall in value, reflecting investor expectations modified by economic events that affect potential risks and returns.
C) Transformational leadership in an organization can have a positive impact on the financial value of a company by nurturing employee motivation and satisfaction, improving performance, reducing employee turnover, and fostering a culture of innovation.
D) The stock market volatility of 2004—22, evidenced by collapses in 2009 after the financial crisis brought on by excessive risk taking and poor regulation of new securities, in 2020 with slumping demand during the pandemic, and in 2022 from the supply chain/Ukraine war disruptions. Despite these collapses, the markets recovered and reached new highs.

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95) Let's consider the following earnings per share for Companies A, B, C, and D in period 1 (earlier) and period 2 (later): In period 1, Company A had an EPS of $1, and in period 2, it was $4. Company B had an EPS of $2 in period 1 and $3 in period 2. Company C's EPS was $3 in period 1 and $2 in period 2. Finally, Company D had an EPS of $4 in period 1 and $1 in period 2. Which company's performance is superior?

A) Company A
B) Company B
C) Company C
D) Company D

96) Let's consider the following earnings per share for Companies A, B, C, and D in period 1 (earlier) and period 2 (later): In period 1, Company A had an EPS of $2, and in period 2, it was $4. Company B had an EPS of $3 in period 1 and $3 in period 2. Company C's EPS was $4 in period 1 and $2 in period 2. Finally, Company D had an EPS of $5 in period 1 and $1 in period 2. Which company's performance is inferior?

A) Company A
B) Company B
C) Company C
D) Company D

97) We can measure our success in achieving the appropriate goal for the firm through the:

A) market share
B) profit
C) share price
D) return on investment

98) In an analysis of the firm's market share value, the investor should consider:

A) the risk inherent in the firm
B) the time pattern of the firm's past earnings
C) sociological and psychological factors
D) book value of the company's assets

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99) The key model of finance is:
A) the future value model
B) the present value model
C) the derivatives model
D) the accounting model

100) Which of the following statements related to agency theory is false?
A) Financial managers are interested in arbitrating among the firm's different stakeholders.
B) Financial managers are interested in maintaining their jobs.
C) Financial managers are interested in maximizing shareholders' wealth.
D) Financial managers are interested in maximizing their own compensation package.

101) Contrary to the claims of agency theory, management still has reasons to aim for maximizing shareholders' wealth. Select the statement that does not exemplify that.
A) Poor stock price performance often leads to takeovers and proxy fights to remove management.
B) If the stock price is low, new products could not be launched and the managers will not be seen so successful, affecting their self-image.
C) Share ownership by managers motivates them to achieve market value maximization for their own benefit.
D) Institutional investors are increasingly making management more responsive to shareholders.

102) According to agency theory, financial managers are interested in
A) arbitrating among the firm's different stakeholders.
B) maximizing stock prices.
C) maximizing shareholder's value.
D) emphasizing long-term wealth building instead of long-term results.

103) According to agency theory, financial managers are interested in
A) emphasizing long-term wealth building instead of long-term results.
B) maximizing their own compensation package.
C) maximizing stock prices.
D) maximizing shareholder's value.

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104) Which of the following is an example of how companies hold managers accountable to work in alignment with shareholders' interests?
A) Pension fund managers are taking a more active role in the corporations in which they have an investment.
B) Shareholders are talking to the managers more frequently.
C) Shareholders are threating managers that the latter will be dismissed.
D) Owners of small companies are working as managers.

105) Which of the following does not include an example of socially desirable actions?
A) Community works
B) Efficient production system
C) Customer respect
D) Strong employee relations

106) The two key aspects of ethics in business are:
A) harmony and fairness.
B) transparency and profitability.
C) fairness and honesty.
D) honesty and harmony.

107) Which of the following items is not evidence that contributes to good corporate governance?
A) Board composition
B) Director and officers' ownership positions in the firm
C) Tacit code of ethics
D) Independent audits

108) Which of the following items is not an activity included in the study of finance?
A) Securities trading and underwriting
B) Risk management
C) Sales management
D) Financial planning

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109) Which of these is not one of the primary decision areas in finance?
A) working capital decision
B) risk decision
C) capital budgeting decision
D) capital structure decision

110) Working capital decision is related to
A) managing current assets and liabilities.
B) the acquisition of capital assets to create value for the firm.
C) the combination of debt and equity used by the firm.
D) managing company's risk and return.

111) Which of the following items is an example of a daily activity in financial management that requires careful monitoring of the firm's cash position?
A) Intermediate financing
B) Bond issues
C) Dividend decisions
D) Inventory control

112) Which of the following items represents one of the less-routine functions of financial management, of a longer-term nature, often requiring extensive analysis? These decisions are frequently of strategic importance and may involve significant capital investments.
A) Cash management
B) Credit management
C) Dividend decisions
D) Inventory control

113) Which of the following is a characteristic of a sole proprietorship?
A) Taxation of profits or losses is allocated in percentages to partners
B) Being a legal entity unto itself
C) Unlimited liability to the owner
D) Ability to raise more capital and share ownership responsibilities

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114) Which of the following is one of the characteristics of a partnership?
A) Low organizational and operating costs
B) Ability to raise more capital and share ownership responsibilities
C) Unlimited liability to the owner
D) Simplicity of decision making

115) Which of the following is one of the characteristics of a corporation?
A) Unlimited liability to the owner
B) Ability to raise more capital and share ownership responsibilities
C) Taxation of profits or losses is allocated in percentages to partners
D) Being a legal entity unto itself

116) Which of these statements is incorrect?
A) Primary market is more important than the secondary market.
B) When a corporation uses the financial markets to raise new funds, the sale of securities is said to be made in the primary market by way of a new issue.
C) After the securities are sold to the public (institutions and individuals), they are traded in the secondary market between investors.
D) In the secondary market, prices change continually, as investors buy and sell securities based on their expectations of the corporation's prospects.

117) Which one of these factor does not determine our collective perceptions of risk?
A) Interest rates
B) Consumer behaviour
C) Liquidity
D) Debt

118) What is the interest rate at which financial institutions lend money among themselves for one day?
A) overnight rate
B) daily rate
C) internal rate of return
D) subprime rate

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119) Which of the following statements about inflation is not accurate?
A) Disinflation does not exist in the real world.
B) A major determinant of interest rates is the rate of inflation.
C) The rate of inflation is measured by the changes in the consumer price index (CPI).
D) Generally, the prime rate exceeds the average rate of inflation.

120) Due to the global competition, financial managers need to have the sophistication to understand international capital flows, _____, foreign currency hedging strategies, and many other factors.
A) production systems
B) marketing strategies
C) domestic economy
D) computerized electronic funds transfer systems

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

121) Financial management builds upon the disciplines of economics and accounting. Complete the following statements:

a) Economics provides the financial manager with...
b) Accounting provides the financial manager with...

122) Selecting profit maximization as the primary goal of the firm may not increase its value, because a profit-only focus has several drawbacks. List and describe these drawbacks.

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123) What four factors will investors consider in the analysis of a firm market share value?

124) According to agency theory, other than maximizing shareholder wealth what other self-interests do financial managers have?

125) Besides maximizing shareholder wealth, what should corporations consider to be goals? List and briefly explain.

126) What are the four components of good corporate governance?

127) List the 4 components of good corporate governance and identify additional measures that could be added to strengthen corporate governance.

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128) List the occasional functions of the finance manager connected to the efficient raising and investing of funds.

129) What are the characteristics of a sole proprietorship? What are the drawbacks?

130) What are the characteristics of a partnership? What are the advantages compared to a sole proprietorship?

131) What are the characteristics of a corporation?

132) What two choices does the board of directors have to distribute earnings of a corporation?

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133) Provide one example of how companies hold managers accountable to work in alignment with shareholders' interests?

134) What are the three main decision areas of finance? Please explain what each of them is associated with.

135) Explain the distinctions between the primary and secondary markets of securities transactions.

136) Let's analyze the provided earnings per share for Companies A, B, C, and D during two periods: Period 1 (earlier) and Period 2 (later), as presented in the table below. Based on this data, which company would you prefer? Provide an explanation for your choice.

Company	Period 1	Period 2	Total
X	$3.00	$7.00	$10.00
Y	$5.00	$5.00	$10.00
W	$7.00	$3.00	$10.00
Z	$9.00	$1.00	$10.00

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Chapter 01 Test Bank

Answer Key

Test name: Chapter 01 Test Bank

1) TRUE
2) FALSE
3) FALSE
4) TRUE
5) TRUE
6) FALSE
7) TRUE
8) FALSE
9) FALSE
10) TRUE
11) TRUE
12) TRUE
13) FALSE
14) FALSE
15) TRUE
16) FALSE
17) TRUE
18) FALSE
19) FALSE
20) TRUE
21) FALSE
22) TRUE
23) TRUE
24) FALSE
25) TRUE
26) TRUE
27) TRUE
28) TRUE
29) FALSE
30) FALSE
31) TRUE
32) TRUE
33) TRUE
34) TRUE
35) TRUE
36) TRUE
37) FALSE

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38) TRUE
39) TRUE
40) TRUE
41) TRUE
42) TRUE
43) C
44) B
45) D
46) D
47) D
48) A
49) A
50) D
51) A
52) B
53) D
54) B
55) C
56) B
57) D
58) A
59) D
60) D
61) D
62) D
63) B
64) A
65) C
66) A
67) D
68) C
69) D
70) C
71) B
72) A
73) D
74) A
75) D
76) B
77) D

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78) A
79) D
80) D
81) B
82) A
83) A
84) B
85) C
86) A
87) D
88) D
89) A
90) D
91) C
92) A
93) B
94) C
95) D
96) A
97) C
98) A
99) B
100) C
101) B
102) A
103) B
104) A
105) B
106) C
107) C
108) C
109) B
110) A
111) D
112) C
113) C
114) B
115) D
116) A
117) B

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118) A
119) A
120) D
121) Short Answer
122) Short Answer
123) Short Answer
124) Short Answer
125) Short Answer
126) Short Answer
127) Short Answer
128) Short Answer
129) Short Answer
130) Short Answer
131) Short Answer
132) Short Answer
133) Short Answer
134) Short Answer
135) Short Answer
136) Short Answer

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