Foundations of Financial Management 2025 Release 1st edition Block Test Bank

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Answers are located at the end of each chapter.

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

1) If you invest $1,000 today, how much will you have in 2 years at 6 percent?
   A) $485.84
   B) $1,123.60
   C) $112.36
   D) $925.84

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

Answer Key

Test name: Chapter 01-01

1) B

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Answers are located at the end of each chapter.

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

1) As finance emerged as a new field, much emphasis was placed on mergers and acquisitions.
   - ◎ true
   - ◎ false

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

3) Financial capital is composed of long-term plant and equipment, as well as other tangible investments.
   - ◎ true
   - ◎ false

4) Real capital is composed of long-term plant and equipment.
   - ◎ true
   - ◎ false

5) During the 1930s, financial practice revolved around such topics as the preservation of capital, maintenance of liquidity, the reorganization of financially troubled corporations, and bankruptcy.
   - ◎ true
   - ◎ false

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

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

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

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

9) How investors handle risk is an important topic that usually only economists observe.
   - ◎ true
   - ◎ false

10) Mortgage-backed securities were devalued by accounting standards because of the high credit ratings (AAA).
   - ◎ true
   - ◎ false

11) "Credit default swaps" are one of several tools that Congress and the President of the United States have jointly developed to ease the financial crisis that began in 2008.
   - ◎ true
   - ◎ false

12) The Dodd-Frank Act was created by Congress along with its goals and regulatory responsibility, but it is facilitated by various agencies.
   - ◎ true
   - ◎ false

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13) The difference between investments and corporate finance is that investors use investment principles to value the stock and bonds of many companies whereas corporate finance principles are used to determine which assets the firm should develop or buy, which securities to issue, how management compensation should be structured and other inside of the company issue.
- ◎ true
- ◎ false

14) The Dodd-Frank Act contains the Volcker Rule, which encourages financial institutions to allow for more speculative investments for average investors.
- ◎ true
- ◎ false

15) The Dodd-Frank Act's oversight allowing regulation of banking fees and available products has been considered as not being in the best interests of a free market.
- ◎ true
- ◎ false

16) The Internet impacts e-commerce by creating a mechanism for improved communications between a business, its customers, and its suppliers.
- ◎ true
- ◎ false

17) The Internet is responsible for many new business models.
- ◎ true
- ◎ false

18) Businesses will increasingly rely on B2B Internet applications to speed up the cash flows through their firms.
- ◎ true
- ◎ false

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

19) Sole proprietorship means single-person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs.

- ◎ true
- ◎ false

20) Under the 2017 Tax Cuts and Jobs Act, the most significant change is that the corporate tax rate goes from 35 percent to 21 percent, which puts U.S. Companies on competitive footing with many other countries.

- ◎ true
- ◎ false

21) With more employees working online, company headquarters and operations for most multinational companies can be placed almost anywhere. In response, countries around the world have slashed tax rates in an effort to attract and retain new businesses.

- ◎ true
- ◎ false

22) Profits of sole proprietorships are taxed at corporate tax rates.

- ◎ true
- ◎ false

23) Sole Proprietorships, partnerships and limited liability partnerships are considered pass through forms of organizations because the income passes through to the owners and is taxed at the owner's individual tax rate.

- ◎ true
- ◎ false

24) To reduce the burden on small firms, the government established a 25 percent deduction of qualified business income from pass through businesses.

- ◎ true
- ◎ false

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

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

27) In terms of revenues and profits, the corporation is by far the most important form of business organization in the United States.
- ◎ true
- ◎ false

28) As noted in *Finance in Action*, the sole focus of a business is to maximize profits, which will ultimately provide the most benefit to shareholders.
- ◎ true
- ◎ false

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

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

31) A corporation must have more than 100 stockholders to qualify for Subchapter S designation.
- ◎ true
- ◎ false

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

32) Profits of a Subchapter S corporation are taxed at corporate tax rates.
- ◎ true
- ◎ false

33) The formation of a Subchapter S corporation is a way to circumvent the double taxation of a small corporation.
- ◎ true
- ◎ false

34) Corporate governance issues have become less important to the financial community during the first decade of the new millennium.
- ◎ true
- ◎ false

35) Agency theory examines the relationship between companies and their customers.
- ◎ true
- ◎ false

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

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

38) The Sarbanes-Oxley Act reduced agency conflicts by giving corporate managers greater flexibility to select their preferred candidates to the board of directors.
- ◎ true
- ◎ false

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

39) A major focus of the Sarbanes-Oxley Act is to make sure that publicly traded companies accurately present their assets, liabilities, and income in their financial statements.
- ◎ true
- ◎ false

40) The Sarbanes-Oxley Act is primarily intended to increase public scrutiny of private companies that had previously been exempt from many public disclosure requirements.
- ◎ true
- ◎ false

41) Timing is not a particularly important consideration in financial decisions.
- ◎ true
- ◎ false

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

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

44) Maximizing Shareholder wealth can be difficult due to daily fluctuations in stock value in combination with changing investor expectations.
- ◎ true
- ◎ false

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

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

46) The ultimate measure of performance is not what the firm profits, but how the profits are valued by the investor.
- ◎ true
- ◎ false

47) Because socially desirable goals can hinder short-term profitability in many instances, managers should avoid pursuing these goals.
- ◎ true
- ◎ false

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

49) If an investor hears of a large change that a company is going to make through a news article and reacts quicker than any other investor, it is considered insider trading.
- ◎ true
- ◎ false

50) When an investor has the ability to control how the stock price changes, that is considered insider trading.
- ◎ true
- ◎ false

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

52) Irrational exuberance is when companies have stock that is undervalued.
- ◎ true
- ◎ false

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

53) 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

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

- ◎ true
- ◎ false

55) Money markets refer to markets where excess corporate cash is exchanged for foreign currencies that can earn a higher return than domestic money.

- ◎ true
- ◎ false

56) Capital markets refer to those markets dealing with short-term securities that have a life of one year or less.

- ◎ true
- ◎ false

57) The primary market includes the sale of securities by way of initial public offerings.

- ◎ true
- ◎ false

58) When a company is looking to raise money through issuing more shares of stock, that is considered in the secondary market.

- ◎ true
- ◎ false

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

59) High-quality initial public offerings are usually sold in a primary market, such as the New York Stock Exchange. However, low-quality stocks must usually be sold in secondary markets, such as Nasdaq.

◎ true
◎ false

60) Although Nasdaq is a secondary market, some of the firms traded there, such as Microsoft, are large enough to move to the primary market if they so desire.

◎ true
◎ false

61) The secondary market characteristically has had stable prices over the past 20 years.

◎ true
◎ false

62) In the United States, stocks traded on either the New York Stock Exchange or Nasdaq are considered sold in the primary market.

◎ true
◎ false

63) New issues are sold in the secondary market.

◎ true
◎ false

64) Existing securities are traded in the secondary market.

◎ true
◎ false

65) Many companies have cross-listed their stock on multiple international stock exchanges and more than several hundred foreign companies have listed their shares on the New York Stock Exchange.

◎ true
◎ false

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

66) Higher returns always induce stockholders to invest in a company.

- ◎ true
- ◎ false

67) Higher return means that the public company has lower risk.

- ◎ true
- ◎ false

68) Social responsibility is an expense and thus should be avoided by financial managers because it will lead to loss of income.

- ◎ true
- ◎ false

69) Financial management requires both short-term activities as well as long-term planning such as raising funds.

- ◎ true
- ◎ false

70) One of the primary disadvantages of maximizing shareholder value is that it only provides a short-term perspective.

- ◎ true
- ◎ false

71) If a company has a written code of ethics, it will assist in avoiding ethical problems.

- ◎ true
- ◎ false

72) Risk management will be an important factor over the next decade.

- ◎ true
- ◎ false

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

73) With the creation of Internet trading, trading through brokers became less desirable for some investors due to the higher cost.

- ◎ true
- ◎ false

74) Time value of money is the idea that a dollar received today is worth less than a dollar that we expect to receive at some date in the future.

- ◎ true
- ◎ false

75) The relationship between future value and present value is given by the following formula:

$FV = PV(1+i)^n$

FV = future value

PV = present value

i = interest rate

n = number of periods

- ◎ true
- ◎ false

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

76) Which of the following did not contribute to the financial crisis?

A) Solid credit ratings from the ratings agencies
B) The extension of credit to high-risk borrowers
C) The merger of JPMorgan Chase and Bear Stearns
D) All of the options contributed to the financial crisis.

77) Credit default swaps are

A) an insurance product designed to protect financial institutions from customers who default on their loans.
B) securities with a maturity of less than one year.
C) the result of a leveling off or slowing down of stock price increases.
D) market trades in previously issued securities.

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

78) What should be the primary goal of financial management?
A) Increased earnings
B) Maximizing cash flow
C) Maximizing shareholder wealth
D) Minimizing risk of the firm

79) In the past, the study of finance has included
A) mergers and acquisitions.
B) raising capital.
C) bankruptcy.
D) All of the options

80) Many of the best-known winners of the Nobel Prize for Economics:
A) researched fiscal policy
B) were financial economists
C) were accountants
D) none of the above

81) Notable recipients of the Nobel Prize in Economics have been recognized for their contributions to the
A) options pricing model.
B) theories of working capital management.
C) theories in measuring risk along with return on securities.
D) theories of international capital budgeting.

82) Behavioral finance is the study of
A) how investors react to accounting-based profit fluctuations.
B) how investors react to interest rates and foreign currency fluctuations.
C) how investors react to certain ways to diversify a portfolio.
D) how investors react to the amount of risk versus the amount of return in securities.

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

83) Which of the following is NOT addressed by the Dodd-Frank Act?
A) Liquidation of non-bank financial companies such as insurance companies.
B) Identifies systematic risk of U.S. financial system.
C) Written certifications of financial statements by the CEO and CFO.
D) Registration of hedge funds with the SEC.

84) Proper risk-return management means that
A) the firm should take as few risks as possible.
B) the firm must determine an appropriate trade-off between risk and return.
C) the firm should earn the highest return possible.
D) the firm should value future profits more highly than current profits.

85) 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) high organizational costs.
D) high operating costs.

86) One of the major advantages of a sole proprietorship is
A) that the owner has limited liability.
B) that stock in the proprietorship can be easily transferred.
C) that it is exempt from many tax rules that would otherwise apply when employees are hired by the firm.
D) low operating costs.

87) The partnership form of an 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.

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

88) A corporation is
A) owned by stockholders who enjoy the privilege of limited liability.
B) easily divisible between owners.
C) a separate legal entity with unlimited life.
D) All of the options are correct.

89) With an S corporation
A) income is taxed as direct income to stockholders.
B) stockholders have the same liability as members of a partnership.
C) the number of stockholders is unlimited.
D) the life of the corporation is limited.

90) An S corporation
A) is similar to a partnership in that it carries unlimited liability.
B) is a separate legal entity that is treated like a normal corporation.
C) has all the organizational benefits of a corporation and its income is only taxed once.
D) All of the options

91) From the 2017 Tax Cuts and Job Act, a reason to choose sole proprietorship, partnership or corporation as a form of organization is:
A) the number of people in the organization.
B) the liability of the owner.
C) the complexity involved with state and federal regulations and taxation.
D) All of the options are correct.

92) 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 (CFO) and institutional investors.
C) operation of a company by the chief executive officer (CEO) and other senior executives on the management team.
D) governance of the company by the board of directors with a focus on pleasing management.

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

93) Many companies such as Tyco, Enron, and WorldCom that suffered financial distress in the late 1990s and early 2000s
A) committed fraud.
B) had failed corporate governance oversight.
C) went bankrupt.
D) All of the options are true.

94) Agency theory examines the relationship between the
A) shareholders of the firm and the firm's investment banker.
B) owners of the firm and the managers of the firm.
C) board of directors and large institutional investors.
D) shareholders and the firm's transfer agent.

95) 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 chairman of the board of directors is also the chief executive officer (CEO).
D) the board of directors exerts strong and involved oversight of management.

96) 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.

97) Agency problems are least likely to arise in which organizational form?
A) Sole proprietorship
B) Limited partnership
C) Corporation
D) Subchapter S corporation

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

98) Institutional investors are important in today's business world because
A) as large investors, they have more say in how businesses are managed.
B) they have a fiduciary responsibility to the workers and investors that they represent to see that the firms they own are managed in an ethical way.
C) as a group they can vote large blocks of stock for the election of board members.
D) All of the options are correct.

99) 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.

100) The Sarbanes-Oxley Act was passed in an effort to
A) protect small business from large corporations dominating the market.
B) ensure that partnerships divide profits among partners in a fair manner.
C) guarantee that outside auditors can control corporate accounting practices.
D) control corrupt corporate financial behavior.

101) The Sarbanes-Oxley Act set up the Public Company Accounting Oversight Board with the responsibility for all of the following except
A) internal controls within companies.
B) controlling the quality of audits.
C) certifying the competence of financial executives.
D) setting rules and standards for the independence of auditors.

102) A financial manager's goal of maximizing current or short-term earnings may not be appropriate because
A) it fails to consider the timing when shareholders want increased earnings and may instead consider the manager’s own goals.
B) increased earnings may be accompanied by unacceptably higher levels of risk.
C) earnings are subjective; they can be defined in various ways such as accounting or economic earnings.
D) All of the options are true.

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

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

104) 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.
C) It considers risk as a factor.
D) None of the options is a false statement.

105) As mergers, acquisitions, and restructuring 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 are owners of the company and act the same with the same interests.

106) 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 bankers, and others buy common stock in companies represented by their firms.
D) any stock transaction that violates the Federal Trade Commissions restrictions.

107) 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 trades have not been legally well-defined.
D) that it is hard to figure out which owner(s) benefited from the trade.

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

108) What is the major difference between money markets and capital markets?
A) One is more domestic while the other is more international.
B) One includes stock while the other includes loans.
C) The size of the profit or return on the market.
D) The timing of how long the security will be held onto.

109) Capital markets do not include which of the following securities?
A) Common stock
B) Commercial paper
C) Government bonds
D) Preferred stock

110) 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) online market.
D) third market.

111) Which of the following statements is not true of secondary markets?
A) After securities are sold to the public, they are traded in the secondary market between investors.
B) The secondary market prices are continually changing as investors buy and sell securities.
C) The sale of securities is made in the secondary market by way of a new issue.
D) In the secondary market, financial managers are given feedback about their firm's performance.

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

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

113) What is financial capital as defined in the financial industry?
A) The structure of the company
B) The sales price of stock
C) Profits
D) Money

114) The financial markets allocate capital to corporations by
A) reflecting expectations of the market participants in the price of the corporation's stock.
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 bankers.

115) Corporate restructuring can be a result of more institutional ownership. Restructuring can cause
A) changes in the amount of assets versus the amount of liabilities of the firm.
B) the sale of low-profit margin divisions.
C) the removal of current management and/or large reductions in the workforce.
D) All of the options are correct.

116) A corporate restructuring can result in
A) changes in the capital structure.
B) selling of low-profit margin divisions.
C) the board of directors exercising control of the company’s major decisions.
D) All of the options are true.

117) Which of the following is not an example of restructuring?
A) Increase or decrease the amount of common stock.
B) Eliminating profitable but unrelated divisions.
C) Merging with companies in related industries.
D) Divesting of an unprofitable division.

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

118) Future financial managers will need to understand
A) international cash flows.
B) computerized funds transfers.
C) international currency hedging strategies.
D) All of the options are true.

119) The increase in the internationalization of financial markets has led to
A) companies searching the global financial markets for low-cost funds.
B) an increase in American Depository Receipts (ADRs) on the New York Stock Exchange.
C) an increase in debt obligations denominated in foreign currency on U.S. corporate balance sheets.
D) All of the options are true.

120) The internationalization of the financial markets has
A) allowed firms such as McDonald's to raise capital around the world.
B) raised the cost of capital.
C) forced companies to price everything in U.S. dollars.
D) All of the options are true.

121) The Internet has affected the financial markets by
A) creating more competition between markets.
B) pushing the cost of trading down.
C) forcing brokerage companies to consolidate.
D) All of the options are true.

122) Increased productivity due to technology has
A) increased corporations' reliance on debt for capital expansion needs.
B) created larger asset values on the firm's historical balance sheet.
C) made it cheaper (in terms of interest costs and timing of when money is transferred) for firms to borrow money.
D) helped to keep corporate costs in check.

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

123) Companies that perform well
A) can sell their stock for a lower price.
B) can minimize dilution when issuing new shares.
C) can issue debt at a lower interest rate.
D) can minimize dilution when issuing new shares and can issue debt at a lower interest rate.

124) The entity that is responsible for establishing the allocation and cost of capital is/are
A) the corporation.
B) the economy.
C) investors.
D) customers.

125) The benefits of social responsibility often include
A) a better reputation.
B) higher short-term earnings.
C) lower expenses.
D) None of the options

126) Who is accountable for social responsibility within a firm?
A) The board of directors
B) Management
C) Investors
D) The financial market

127) Regarding risk levels, financial managers should
A) pursue higher-risk projects because they increase value.
B) avoid higher-risk projects because they destroy value.
C) focus primarily on market fluctuations.
D) evaluate investors' desire for risk.

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

128) What is the future value of $2,000 deposited for one year earning 6 percent interest rate annually?
A) $120
B) $2.000
C) $2,120
D) $4,120

129) What is the future value of $6,000 deposited for one year earning 5 percent interest rate annually?
A) $6,150
B) $6,100
C) $6,300
D) $7,101

130) What is the present value of a $750 payment made in three years when the discount rate is 5 percent?
A) $646.96
B) $647.88
C) $712.50
D) $868.22

131) What is the present value of a $1500 payment made in three years when the discount rate is 8 percent?
A) $125.69
B) $1,190.75
C) $1,100.53
D) $1,224.22

132) Which of the following is NOT a financial issue that companies must address?
A) Assessing varying risk levels of product introductions
B) The decision to use short-term or long-term debt to finance the business
C) The integration of creative brand development of products
D) Determining whether the company should reinvest profits into the business or return it to the shareholders via dividends

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

133) Institutional investors include all of the following except
A) retail investors.
B) pension funds.
C) insurance companies.
D) mutual funds.

134) When using Excel to solve present value and future value problems, which of the following is NOT one of the specific inputs used in the formulas?
A) PV
B) Rate
C) Nper
D) Annuity

135) If you invest $5,000 today, how much will you have in 9 years at 8 percent?
A) $9,962.81
B) $999.50
C) $2,501.24
D) $9,995.02

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

Answer Key

Test name: Chapter 01-02

1) TRUE
2) FALSE
3) FALSE
4) TRUE
5) TRUE
6) TRUE
7) TRUE
8) TRUE
9) FALSE
10) FALSE
11) FALSE
12) TRUE
13) TRUE
14) FALSE
15) TRUE
16) TRUE
17) TRUE
18) TRUE
19) TRUE
20) TRUE
21) TRUE
22) FALSE
23) TRUE
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Foundations of Financial Management 2025 Release 1st edition Block Test Bank

38) FALSE
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68) FALSE
69) TRUE
70) FALSE
71) TRUE
72) TRUE
73) TRUE
74) FALSE
75) TRUE
76) C
77) A

Foundations of Financial Management 2025 Release 1st edition Block Test Bank

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

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

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