

Question 1

Financial leverage is typically more under the control of management than is operating leverage because the nature of the product often dictates the type of production process needed.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849038>

Question 2

As inflation pushes interest rates up, the cost of carrying inventory rises.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849761>

Question 3

The telecommunications system that provides a national information linkup among brokers and dealers operating in the over-the-counter market is called

- A) NCIS.
- B) NSQA.
- C) NASDAQ.
- D) NASQ.

Answer: <https://biology-forums.com/index.php?topic=1847717>

Question 4

A financial analyst expects Crane Service Inc. to pay a dividend of \$2 per share one year from today, a dividend of \$3 per share in years two, and estimates the value of the stock at the end of year two to be \$22. If your required return on Crane Service stock is 14 %, what is the most you would be willing to pay for the stock today if you plan to sell the stock in two years?

- A) \$20.99
- B) \$26.75
- C) \$26.90
- D) \$27.00

Answer: <https://biology-forums.com/index.php?topic=1848547>

Question 5

A share of preferred stock that pays the same annual dividend forever is an example of a perpetuity.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848196>

Question 6

When I buy an \$12.00 movie ticket rather than two paperback books, the opportunity cost of going to the movie is the two paperback books I did not buy.

Answer: <https://biology-forums.com/index.php?topic=1849806>

Question 7

Use the "percent of sales method" of preparing pro forma financial statements to determine the projection for next year's accounts payable. Make the following assumptions: current year's sales are \$27,800,000; current year's cost of goods sold is \$17,528,000; sales are expected to rise by 30%. The firm's investment in accounts payable in the current year is \$2,218,500. What is the projection for next year's accounts payable?

- A) \$2,127,000
- B) \$3,781,750
- C) \$2,884,050
- D) \$4,184,000

Answer: <https://biology-forums.com/index.php?topic=1849326>

Question 8

Which of the following actions would improve a firm's liquidity?

- A) repurchasing stock
- B) selling bonds and increasing cash
- C) buying bonds
- D) increasing the company's dividend payments

Answer: <https://biology-forums.com/index.php?topic=1849396>

Question 9

A stock dividend differs from a stock split because in a stock split, the par value of the company's stock is reduced, while the par value remains the same after a stock dividend is paid.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849232>

Question 10

At the current point of production on a nation's production possibilities frontier, the marginal benefit of a slice of pizza is 500 tacos per slice of pizza while the marginal cost of producing a slice of pizza is 750 tacos per slice of pizza. To be allocatively efficient, what should be done?

Answer: <https://biology-forums.com/index.php?topic=1850019>

Question 11

Assume that an investment is forecasted to produce the following returns: a 10% probability of a \$1,400 return; a 50% probability of a \$6,600 return; and a 40% probability of a \$1,500 return. What is the expected amount of return this investment will produce?

- A) \$4,040
- B) \$7,640
- C) \$12140
- D) \$1,540

Answer: <https://biology-forums.com/index.php?topic=1848210>

Question 12

Which of the following differentiates the cost of retained earnings from the cost of newly-issued common stock?

- A) the cost of the pre-emptive rights held by existing shareholders
- B) the greater marginal tax rate faced by the now-larger firm
- C) the flotation costs incurred when issuing new securities
- D) the larger dividends paid to the new common stockholders

Answer: <https://biology-forums.com/index.php?topic=1848637>

Question 13

Raindrip Corp. can purchase a new machine for \$1,875,000 that will provide an annual net cash flow of \$650,000 per year for five years. The machine will be sold for \$120,000 after taxes at the end of year five. What is the net present value of the machine if the required rate of return is 13.5%.

- A) \$558,378
- B) \$513,859
- C) \$473,498
- D) \$447,292

Answer: <https://biology-forums.com/index.php?topic=1848768>

Question 14

A \$1,000 par value 14-year bond with a 10 percent coupon rate recently sold for \$965. The yield to maturity is

- A) 10.49%.
- B) 10.00%.
- C) 8.87%.
- D) 6.50%.

Answer: <https://biology-forums.com/index.php?topic=1848421>

Question 15

Using the constant growth dividend valuation model and assuming dividends will growth a constant rate forever, the increase in the value of the stock each year should be equal to the

- A) growth rate in dividends, g.
- B) required return on the stock, rcs.
- C) dividend yield plus the capital gains yield.
- D) dividend yield.

Answer: <https://biology-forums.com/index.php?topic=1848545>

Question 16

Which of the following is an example of both a capital market and a primary market transaction?

- A) The U.S. Government sells 3-month Treasury bills.
- B) Microsoft common stock owned by an individual investor is sold to another investor.

- C) Ford Motor Company sells a new issue of common stock to raise funds through a public offering.
D) No transactions occur in both primary and capital markets at the same time.

Answer: <https://biology-forums.com/index.php?topic=1847707>

Question 17

How much money do I need to place into a bank account that pays a 1.08% rate in order to have \$500 at the end of 7 years?

- A) \$332.54
B) \$751.81
C) \$463.78
D) \$629.51

Answer: <https://biology-forums.com/index.php?topic=1848085>

Question 18

Except for the effects of small transaction costs, the forward premium or discount should be equal and opposite in size to the difference in the national interest rates for securities of the same maturity. What is the name of this theory?

- A) the purchasing power parity theory
B) the Bobby Fisher effect
C) interest rate parity theory
D) the law of one price

Answer: <https://biology-forums.com/index.php?topic=1849583>

Question 19

An increase in financial leverage will increase the absolute value of EPS, everything else equal.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849041>

Question 20

What is the term for a graphical representation of the relationship between interest rates and the maturities of debt securities?

- A) term curve
B) maturity chart
C) yield curve
D) inflationary expectations

Answer: <https://biology-forums.com/index.php?topic=1847799>

Question 21

Wheeler Corporation had retained earnings as of 12/31/10 of \$15 million. During 2011, Wheeler's net income was \$7 million. The retained earnings balance at the end of 2011 was equal to \$20 million. Therefore,

- A) Wheeler paid a dividend in 2010 of \$5 million.
B) Wheeler paid a dividend in 2010 of \$2 million.
C) Wheeler sold common stock during 2010 for \$5 million.
D) Wheeler purchased treasury stock in 2010 for \$2 million.

Answer: <https://biology-forums.com/index.php?topic=1847869>

Question 22

Lasalle Industries is considering the purchase of a new machine that will cost \$250,000, plus an additional \$10,000 to ship and install. The new machine will have a 5-year useful life and will be depreciated to zero using the straight-line method. The machine is expected to have a salvage value of \$30,000 at the end of year five. LaSalle's income tax rate is 40%. The additional net working capital from this project of \$50,000 is expected to return to its pre-project level upon termination. What is the non-operating terminal cash flow of the machine?

- A) -\$32,000
B) \$48,000
C) \$68,000
D) \$80,000

Answer: <https://biology-forums.com/index.php?topic=1848922>

Question 23

The primary advantage that pledging accounts receivable provides is

- A) the flexibility it gives to the borrower.
B) that the financial institution bears the risk of collection.
C) the low cost as compared with other sources of short-term financing.
D) that the financial institution services the accounts.

Answer: <https://biology-forums.com/index.php?topic=1849494>

Question 24

Junk bonds are also called high-yield bonds.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848323>

Question 25

LEE Corporation intends to purchase equipment for \$1,500,000. The equipment has a 5-year useful life and will be depreciated on a straight-line basis. Addition of the equipment requires additional working capital of \$20,000. The \$20,000 is expected to be recaptured at the end of the project. LEE's marginal tax rate is 40%. Use of the equipment is expected to change the company's reported EBIT by \$600,000 in year one, \$700,000 in year two, \$550,000 in year three, \$200,000 in year four, and \$100,000 in year five. Due to changing market conditions, the equipment did have a salvage value of \$100,000 at the end of year five.

a. Calculate the initial outlay and the incremental free cash flows over the life of the project.

b. If the risk-adjusted discount rate for this project is 20%, calculate the project's net present value and internal rate of return and comment on the acceptability of the project.

Answer: <https://biology-forums.com/index.php?topic=1848934>

Question 26

If you only earned interest on your initial investment, and not on previously earned interest, it would be called simple interest.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848063>

Question 27

In measuring cash flows, we are interested only in the incremental or incremental after-tax cash flows that are attributed to the investment proposal being evaluated.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848844>

Question 28

Describe the sources of business risk.

Answer: <https://biology-forums.com/index.php?topic=1848986>

Question 29

A determinant of the price elasticity of demand is

- A) whether the good is a durable or a nondurable.
- B) the availability of resources used in the production of the product.
- C) how well consumers like the good.
- D) the proportion of the consumer's total budget spent on the good.

Answer: <https://biology-forums.com/index.php?topic=1850179>

Question 30

Depreciation expense produces a cash inflow equal to the depreciation expense multiplied by the firm's marginal tax rate.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848886>

Question 31

Profits represent money that can be spent, and as such, form the basis for determining the value of financial decisions.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847557>

Question 32

The Sarbanes-Oxley Act of 2002 holds all of the following groups strictly accountable in a legal sense for any instances of misconduct EXCEPT

- A) company officers.
- B) outside members of the board of directors.
- C) lawyers.
- D) investors.

Answer: <https://biology-forums.com/index.php?topic=1847769>

Question 33

Which of the following are included in the terminal cash flow?

- A) the expected salvage value of the asset
- B) any tax payments or receipts associated with the salvage value of the asset
- C) recapture of any working capital increase included in the initial outlay
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=1848909>

Question 34

A bank is legally obligated to provide credit under a revolving credit agreement, but not under a line of credit.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849466>

Question 35

Using the percentage of sales method, forecasted retained earnings balance is equal to

- A) prior year retained earnings plus projected net income less projected dividends.
- B) the ratio of retained earnings to sales for the current year multiplied by projected sales for next year.
- C) the retained earnings balance for the current year as no changes are made to this financing account when using the percent of sales method.
- D) the ratio of retained earnings to sales for the current year multiplied by projected sales for next year, minus dividends paid.

Answer: <https://biology-forums.com/index.php?topic=1849314>

Question 36

Spot exchange markets provide the potential for arbitrage opportunities.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849530>

Question 37

Cindy wants \$2.5 million for her retirement at age 65. Cindy is 25 years old today and plans to deposit equal amounts each year starting on her 26th birthday and ending on her 65th birthday. If her investments earn 6% per year, how much must each deposit be?

Answer: <https://biology-forums.com/index.php?topic=1848163>

Question 38

When solving time value of money problems using Excel, the type = 0 variable means payments are made at the end of each period, and the type = 1 variable means payments are made at the beginning of each period.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848069>

Question 39

In general, the required rate of return is a function of (1) the time value of money, (2) the risk of an asset, and (3) the investor's attitude toward risk.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848290>

Question 40

An indirect quote indicates the number of units of foreign currency that can be bought for one unit of the home currency.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849528>

Question 41

George and Michael can gain from exchange

- A) unless one has an absolute advantage in all goods.
- B) if each specializes in the production of the good for which he has the higher opportunity cost.
- C) if each specializes in the production of the good for which he has the lower opportunity cost.
- D) unless they have different opportunity costs.

Answer: <https://biology-forums.com/index.php?topic=1850001>

Question 42

An investment earning simple interest is preferred over an investment earning compound interest because the simplicity adds value.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848064>

Question 43

Biff deposited \$9,000 in a bank account, and 10 years later he closes out the account, which is worth \$18,000. What annual rate of interest has he earned over the 10 years?

- A) 6.45%
- B) 7.18%
- C) 9.10%
- D) 10.0%

Answer: <https://biology-forums.com/index.php?topic=1848084>

Question 44

A security with a reasonably stable price will have a lower required rate of return than a security with an unstable price.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848610>

Question 45

Kinard's Kennels Inc. ROE is 20%. Their dividend payout ratio is 70%. The last dividend, just paid, was \$2.00. If dividends are expected to grow by the company's internal growth rate indefinitely, what is the current value of Kinard's common stock if its required return is 18%?

- A) \$17.67
- B) \$16.89
- C) \$14.92
- D) \$11.52

Answer: <https://biology-forums.com/index.php?topic=1848560>

Question 46

Matterhorn, Inc. had the following sales for the past six months. Matterhorn collects its credit sales 30% in the month of sale, 60% one month after the sale, and 10% two months after the sale.

Cash Sales Credit Sales

January \$50,000 \$50,000

February \$70,000 \$110,000

March \$55,000 \$95,000

April \$78,000 \$130,000

May \$80,000 \$105,000

June \$75,000 \$148,000

What are Matterhorn's total cash receipts for the month of March?

- A) \$99,500
- B) \$119,000
- C) \$150,000
- D) \$154,500

Answer: <https://biology-forums.com/index.php?topic=1849361>

Question 47

Your daughter is born today and you want her to be a millionaire by the time she is 35 years old. You open an investment account that promises to pay 12% per year. How much money must you deposit each year, starting on her 1st birthday and ending on her 35th birthday, so your daughter will have \$1,000,000 by her 35th birthday?

- A) \$2,317
- B) \$3,455
- C) \$5,777
- D) \$9,450

Answer: <https://biology-forums.com/index.php?topic=1848127>

Question 48

Issuing new short-term bonds to finance an expansion is an example of spontaneous financing.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849272>

Question 49

The estimated value of reducing float by one day is one day's interest on the freed-up sales.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849634>

Question 50

If a producer can use resources to produce either good A or good B, then A and B are

- A) complements in production.
- B) substitutes in production.
- C) substitutes in consumption.
- D) complements in consumption.

Answer: <https://biology-forums.com/index.php?topic=1850045>

Question 51

How does the bond rating affect an investor's required rate of return? What factors affect a bond's rating?

Answer: <https://biology-forums.com/index.php?topic=1848361>

Question 52

A movement along the demand curve shows a change in demand.

Answer: <https://biology-forums.com/index.php?topic=1850117>

Question 53

When considering taxes, most investors prefer capital gains over dividend income.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849145>

Question 54

Auto Loans R Them loans you \$24,000 for four years to buy a car. The loan must be repaid in 48 equal monthly payments. The annual interest rate on the loan is 9 percent. What is the monthly payment?

- A) \$500.92
- B) \$543.79
- C) \$563.82
- D) \$597.24

Answer: <https://biology-forums.com/index.php?topic=1848131>

Question 55

A general partnership, unlike a limited partnership, is an entity that legally functions separate and apart from its owners.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847630>

Question 56

Beaver Corporation stock is currently selling for \$58.00. It is expected to pay a dividend of \$5.00 at the end of the year. Dividends are expected to grow at a constant rate of 7.5% indefinitely. Compute the required rate of return on Beaver Corporation stock.

- A) 12.48%
- B) 15.65%
- C) 13.64%
- D) 16.12%

Answer: <https://biology-forums.com/index.php?topic=1848561>

Question 57

Which of the following forms of business organization limits the liability of owners?

- A) sole proprietorship
- B) general partnership
- C) corporation
- D) two person partnership

Answer: <https://biology-forums.com/index.php?topic=1847660>

Question 58

Which of the following has the least interest rate risk?

- A) a six-month unsecured promissory note from International Harvester
- B) an eight-year investment certificate from a federally insured bank

- C) a 15-year U.S. Treasury bond
- D) an AT&T bond maturing in 15 years

Answer: <https://biology-forums.com/index.php?topic=1849697>

Question 59

Between 2001 and 2015, equilibrium college tuition rose from \$15,000 to \$27,000 and equilibrium enrollment increased from 16 million to 21 million students. These changes could be the result of

- A) an increase in demand.
- B) an increase in supply.
- C) a decrease in demand.
- D) a decrease in supply.

Answer: <https://biology-forums.com/index.php?topic=1850099>

Question 60

The break-even point in sales dollars is convenient if

- A) the firm sells a large amount of one product.
- B) the firm deals with more than one product.
- C) the price per unit is very low.
- D) depreciation expense is high.

Answer: <https://biology-forums.com/index.php?topic=1849015>

Question 61

Advantages of the corporate form of business organization include

- A) easier transfer of ownership.
- B) double taxation.
- C) minimal legal requirements.
- D) none of the above

Answer: <https://biology-forums.com/index.php?topic=1847658>

Question 62

Two sisters each open IRAs in 2011 and plan to invest \$3,000 per year for the next 30 years. Mary makes her first deposit on January 1, 2011, and will make all future deposits on the first day of the year. Jane makes her first deposit on December 31, 2011, and will continue to make her annual deposits on the last day of each year. At the end of 30 years, the difference in the value of the IRAs (rounded to the nearest dollar), assuming an interest rate of 7% per year, will be

- A) \$19,837.
- B) \$12,456.
- C) \$6,300.
- D) \$210.

Answer: <https://biology-forums.com/index.php?topic=1848112>

Question 63

Janet Yellen, Chair of the Federal Reserve, must choose whether tomorrow she meets with the Secretary of the Treasury or with the Congress regarding the financial crisis. This choice reflects the

- A) fact that Ms. Yellen faces scarcity.
- B) concept of entrepreneurship.
- C) fact that Ms. Yellen responds to incentives.
- D) use of capital.

Answer: <https://biology-forums.com/index.php?topic=1849796>

Question 64

You have a savings bond that will be worth \$750 when it matures in 3 years, but you need cash today. If the current going rate of interest is 5%, what is your bond worth if you sell it today (rounded to the nearest dollar)?

- A) \$675
- B) \$648
- C) \$625
- D) \$612

Answer: <https://biology-forums.com/index.php?topic=1848089>

Question 65

Determination of safety stock involves a trade-off between the risk of a stock-out and increased costs of carrying additional inventory.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849762>

Question 66

Fixed costs are called indirect costs while variable costs are called direct costs.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848992>

Question 67

Considerations in the selection of a proper marketable-securities mix include all of the following EXCEPT

- A) financial risk.
- B) interest rate risk.
- C) maturity.
- D) liquidity.

Answer: <https://biology-forums.com/index.php?topic=1849704>

Question 68

Determining the best way to raise money to fund a firm's long-term investments is called

- A) the capital budgeting decision.
- B) the portfolio decision.
- C) the money flow processing decision.
- D) the capital structure decision.

Answer: <https://biology-forums.com/index.php?topic=1847626>

Question 69

Which of the following statements concerning the required rate of return on stocks is true?

- A) The higher an investor's required rate of return, the higher the value of the stock.
- B) If risk is reduced, the required return will decrease because more investors are risk-averse.
- C) The required return on preferred stock is generally higher than the required return on common stock.
- D) The higher the risk, the higher the required return, other things being equal.

Answer: <https://biology-forums.com/index.php?topic=1848541>

Question 70

Convertible bonds are debt securities that can be converted into a firm's stock at a prespecified price.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848325>

Question 71

Bass Frozen Foods, Inc. has found three acceptable investment opportunities. The three projects require a total of \$5 million in financing. It is the company's policy to finance its investments by using 40% debt and 60% common equity. The firm has generated \$3.8 million dollars from its operations that could be used to finance the common equity portion of its investments.

- a. What portion of the new investments will be financed by common equity and what portion by debt?
- b. According to the residual dividend theory, how much would be paid out in dividends?

Answer: <https://biology-forums.com/index.php?topic=1849186>

Question 72

A toy manufacturer following the hedging principle will generally finance seasonal inventory build-up prior to the Christmas season with

- A) common equity to avoid interest on a recurring annual need.
- B) selling equipment.
- C) trade credit.
- D) long-term bonds since this is a recurring financing need.

Answer: <https://biology-forums.com/index.php?topic=1849427>

Question 73

The control hypothesis suggests that shareholders prefer an increase in the firm's debt in order to reduce the agency costs associated with excessive free cash flow.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849086>

Question 74

Techno Robots produces a functioning toy robot. At a production and sales level of 10,000 robots, the firm has the following information:

Selling price per unit = \$15

Variable costs per unit = \$8

EBIT = \$17,500

What is the break-even point in units for the firm?

Answer: <https://biology-forums.com/index.php?topic=1849022>

Question 75

Capital rationing may be imposed because of all of the following EXCEPT

A) capital market conditions are poor.

B) management has a fear of debt.

C) stockholder control problems prevent issuance of additional stock.

D) the company's stock price is at an historically high level.

Answer: <https://biology-forums.com/index.php?topic=1848806>

Question 76

Common-sized income statements restate the numbers in the income statement as a percentage of sales to assist in the comparison of a firm's financial performance across time and with competitors.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847817>

Question 77

Which of the following is NOT a category of inventory?

A) raw materials

B) work-in-process

C) purchases

D) finished goods

Answer: <https://biology-forums.com/index.php?topic=1849779>

Question 78

What are the three motives for holding cash?

Answer: <https://biology-forums.com/index.php?topic=1849719>

Question 79

SEC regulations require that corporate stock repurchases must be done in the open market so that all shareholders have an equal opportunity to sell their shares.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849254>

Question 80

The retention ratio is equal to 1 minus the dividend payout ratio.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848523>

Question 81

A corporate investment manager needs to invest \$1,000,000 for the next 6 months. The current nominal rate of interest in the United States is 5%, while the nominal rate of interest in Argentina is 8%. Which of the following statements is MOST correct?

A) The manager should invest the funds in Argentina and make an extra \$30,000 for the year.

B) The manager may decide to invest the funds in the United States due to the international Fisher effect, which suggests inflation in Argentina may make the extra interest income worth less in one year.

C) The manager is indifferent between investing the funds in the United States or Argentina because real returns will always be the same in the end.

D) The manager cannot invest in Argentina because his company is investing dollars.

Answer: <https://biology-forums.com/index.php?topic=1849592>

Question 82

U.S. Savings Bonds are sold at a discount. The face value of the bond represents its value on its future maturity date. Therefore,

A) the current price of a \$50 face value bond that matures in 10 years will be greater than the current price of a \$50 face value bond that matures in 5

years.
B) the current price of a \$50 face value bond that matures in 10 years will be less than the current price of a \$50 face value bond that matures in 5 years.
C) the current prices of all \$50 face value bonds will be the same, regardless of their maturity dates because they will all be worth \$50 in the future.
D) the current price of a \$50 face value bond will be higher if interest rates increase.
Answer: <https://biology-forums.com/index.php?topic=1848079>

Question 83

Foreign currency forward rates aid traders by reducing uncertainty regarding future market fluctuations.
[b][True or False][b]
Answer: <https://biology-forums.com/index.php?topic=1849535>

Question 84

Starting at the top of a straight-line downward sloping demand curve, as the price falls, total expenditures will
A) initially increase and then decrease.
B) initially decrease and then increase.
C) increase along the entire demand curve.
D) decrease along the entire demand curve.
Answer: <https://biology-forums.com/index.php?topic=1850163>

Question 85

"It is impossible to represent a three variable relationship in a two-dimensional graph." Is this statement true or false? Explain your answer.
Answer: <https://biology-forums.com/index.php?topic=1849881>

Question 86

All of the following are examples of sources of discretionary financing EXCEPT
A) bank loans.
B) notes payable.
C) trade credit.
D) common stock.
Answer: <https://biology-forums.com/index.php?topic=1849332>

Question 87

Underproduction of good _____ create a deadweight loss and overproduction of a good _____ create a deadweight loss.
A) will; will
B) will; will not
C) will not; will
D) will not; will not
Answer: <https://biology-forums.com/index.php?topic=1850266>

Question 88

A graph cannot be used to show that two variables are unrelated.
Answer: <https://biology-forums.com/index.php?topic=1849891>

Question 89

The corporate treasurer of Wooden Furniture Inc. is considering the purchase of either a municipal obligation with a 6.1% coupon or a corporate bond with a 9.5% return. Both bonds have a \$1,000 par value. The company is currently in the 35% marginal tax bracket. Which security should the treasurer recommend?
Answer: <https://biology-forums.com/index.php?topic=1849717>

Question 90

Surf and Spray Inc. has a beta equal to 1.8 and a required return of 15% based on the CAPM. If the market risk premium is 7.5%, the risk-free rate of return is
A) 4.1%.
B) 3.4%.
C) 2.0%.
D) 1.5%.
Answer: <https://biology-forums.com/index.php?topic=1848301>

Question 91

Many preferred stocks have a feature that requires a firm to periodically set aside an amount of money for the retirement of its preferred stock. What is the name of this feature?

- A) convertible
- B) callable
- C) cumulative
- D) sinking fund

Answer: <https://biology-forums.com/index.php?topic=1848476>

Question 92

How do interest rates affect the optimal order quantity Q^* ?

- A) As interest rates increase, Q^* decreases.
- B) As interest rates decrease, Q^* decreases.
- C) As interest rates increase, Q^* increases until it reaches a maximum, after which any further increase in interest causes a decline in Q^* .
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=1849778>

Question 93

If the interest rate is positive, then the present value of an annuity due will be less than the present value of an ordinary annuity.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848100>

Question 94

Fixed assets are assets whose balances will remain the same throughout the year.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847850>

Question 95

A company is technically insolvent when

- A) cash outflows in a given period are greater than cash inflows.
- B) earnings before interest payments are less than the interest payments.
- C) it lacks the necessary liquidity to promptly pay its current debt obligations.
- D) current ratio is less than 1.0.

Answer: <https://biology-forums.com/index.php?topic=1849668>

Question 96

Kohler Manufacturing typically achieves one of three production levels in any given year: 8 million pounds of steel, 10 million pounds of steel, or 16 million pounds of steel. In tracking some of its costs, Kohler's controller discovered one cost that was \$10 per pound at a production level of 8 million pounds, \$8 per pound at a production level of 10 million pounds, and \$5 per pound at a production level of 16 million pounds. This is an example of a

- A) variable cost.
- B) fixed cost.
- C) semivariable cost.
- D) semifixed cost.

Answer: <https://biology-forums.com/index.php?topic=1849005>

Question 97

Accounts receivable variables under control of the financial manager include the terms of credit sales and the quality of credit customers.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849725>

Question 98

If you invest \$750 every six months at 8 percent compounded semiannually, how much would you accumulate at the end of 10 years?

- A) \$10,065
- B) \$10,193
- C) \$22,334
- D) \$21,731

Answer: <https://biology-forums.com/index.php?topic=1848178>

Question 99

The primary sources of collateral for secured loans are accounts receivable and inventory.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849463>

Question 100

Which of the following should NOT be included as investment costs in evaluating a capital asset?

- A) interest payments and other financing cash flows that result from raising funds to finance a project
- B) employee training expenses
- C) shipping expenses
- D) installation expenses

Answer: <https://biology-forums.com/index.php?topic=1848918>

Question 101

Interest expenses are not included as incremental free cash flows because the cost of funds is recognized when cash flows are discounted back to present value.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848896>

Question 102

Its ability to raise capital by selling stock makes the corporation the best form of organization in terms of raising capital.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847635>

Question 103

If your demand for gasoline is inelastic, when the price of gasoline falls, which of the following occurs?

- A) Your demand curve for gasoline will shift leftward.
- B) Your demand curve for gasoline will shift rightward.
- C) Your total expenditure on gasoline will increase.
- D) Your total expenditure on gasoline will decrease.

Answer: <https://biology-forums.com/index.php?topic=1850162>

Question 104

The demand for bus rides is a downward-sloping straight line demand curve. The price elasticity of demand for bus rides _____.

- A) increases as the price of a bus ride falls
- B) decreases as the price of a bus ride falls
- C) is the same no matter what the price of a bus ride
- D) decreases as the price of a bus ride rises

Answer: <https://biology-forums.com/index.php?topic=1850138>

Question 105

Which of the following methods of evaluating investment projects can properly evaluate projects of unequal lives?

- A) the net present value
- B) the payback
- C) the internal rate of return
- D) the equivalent annual annuity

Answer: <https://biology-forums.com/index.php?topic=1848826>

Question 106

A direct quote of \$1.9887 dollars to buy one U.K. pound corresponds to an indirect quote of .9887 pounds per one dollar.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849539>

Question 107

Any production point outside the production possibilities frontier is

- A) unattainable.
- B) associated with unused resources.
- C) attainable only if prices fall.

D) attainable only if prices rise.

Answer: <https://biology-forums.com/index.php?topic=1849896>

Question 108

The Bike Store orders \$2000 worth of supplies every 30 days. If they take advantage of the 3/10 net 30 discount offered by their supplier, how much would they save over the year? Assume a 360-day year.

Answer: <https://biology-forums.com/index.php?topic=1849750>

Question 109

Moving along a PPF, marginal cost is

- A) the cost of producing the first unit of a good or service.
- B) the total cost, less the production of the other good or service.
- C) greater than the opportunity cost.
- D) equal to the opportunity cost of producing one more unit of a good or service.

Answer: <https://biology-forums.com/index.php?topic=1849963>

Question 110

The CEO of High Tech International decides to change an accounting method at the end of the current year. The change results in reported profits increasing by 5%, but the company's cash flows are not changed. If capital markets are efficient, then

- A) the stock price will not be affected by the accounting change.
- B) the stock price will increase due to higher profits.
- C) the stock price will increase only if the accounting change will also result in higher profits in the next year.
- D) the stock price will decrease because accounting method changes are not permitted under generally accepted accounting principles.

Answer: <https://biology-forums.com/index.php?topic=1847596>

Question 111

Alice Kitchen's, Inc. bonds have a 10% coupon rate with semiannual coupon payments. They have 5 years to maturity and a par value of \$1,000. Compute the value of Alice's bonds if investors' required rate of return is 8%.

- A) \$1,156.22
- B) \$1,239.33
- C) \$1,137.10
- D) \$1,084.44

Answer: <https://biology-forums.com/index.php?topic=1848399>

Question 112

One example of the hedging principle is to reduce a company's foreign exchange risk by purchasing futures contracts, which are called hedges.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849411>

Question 113

In order to societies to reap the gains from trade, it is necessary to

- A) define and enforce property rights.
- B) foster economic growth.
- C) distribute resources equally.
- D) achieve productive efficiency.

Answer: <https://biology-forums.com/index.php?topic=1850011>

Question 114

Financial theory assumes that individuals are risk averse.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848952>

Question 115

Suppose a corporation can change its depreciation method so that its tax payments will decrease by \$5,000 this year but increase by \$5,000 next year.

- A) The change will have no impact on the value of the company because its cash flow over time will be the same.
- B) The change will decrease the value of the company because investors don't like changes in accounting methods.
- C) The change will decrease the value of the company because lower tax payments this year result from lower reported income.
- D) The change will increase the value of the company because the value of the cash savings this year exceeds the cost of the cash payments next

year.

Answer: <https://biology-forums.com/index.php?topic=1848078>

Question 116

Exchange rate fluctuations do not increase the riskiness of foreign portfolio investments because changes in exchange rates are compensated for by changes in interest rates and investment returns.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849601>

Question 117

According to the clientele effect, dividend policy matters even if capital markets are perfect because investors self-select into dividend preference groups.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849124>

Question 118

Bill, a local inventor, developed a diet pill that he believes will solve the obesity problem in the United States. Bill wants to create a new company, 50% owned by Bill and 50% owned by a major drug company. Although he believes the pills are safe, Bill is concerned about liability if someone becomes sick or dies. The best form of business organization for the new company is

- A) sole proprietorship with Bill as owner and the drug company as creditor.
- B) general partnership with Bill and the drug company as equal partners.
- C) S-type corporation with Bill and the drug company owning equal shares.
- D) limited liability company with Bill and the drug company owning equal shares.

Answer: <https://biology-forums.com/index.php?topic=1847644>

Question 119

You wish to accumulate \$10,000 by depositing \$481.46 per month into a savings account that earns 4.75% compounded monthly. How many monthly deposits must you make?

Answer: <https://biology-forums.com/index.php?topic=1848157>

Question 120

Total assets must always equal the sum of temporary, permanent, and spontaneous sources of financing.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849412>

Question 121

The dividend irrelevance hypothesis is based on all of the following assumptions EXCEPT

- A) investment decisions will not be altered by the amount of dividend payments.
- B) investors do not need cash dividends to supplement their current income.
- C) perfect capital markets.
- D) borrowing decisions will not be altered by the amount of dividend payments.

Answer: <https://biology-forums.com/index.php?topic=1849159>

Question 122

If variables x and y move up and down together, they are

- A) positively related.
- B) negative related.
- C) unrelated.
- D) trend related.

Answer: <https://biology-forums.com/index.php?topic=1849858>

Question 123

The firm's cost of capital is important when evaluating the firm's overall value, but it should not be used to evaluate individual projects which have their own unique characteristics.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848588>

Question 124

When solving time value of money problems on a financial calculator, you must select the "end mode" when you enter the final year's cash flow.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848067>

Question 125

At the midpoint of a downward sloping straight-line demand curve, the demand

- A) is elastic.
- B) is unit elastic.
- C) is inelastic.
- D) has an elasticity exactly equal to zero.

Answer: <https://biology-forums.com/index.php?topic=1850140>

Question 126

The _____ is the premium to compensate for the price change expected to occur over the life of the bond or investment instrument.

- A) inflation-risk premium
- B) maturity premium
- C) real risk-free interest rate premium
- D) default-risk premium

Answer: <https://biology-forums.com/index.php?topic=1847803>

Question 127

The rate on T-bills is currently 2%. Environment Help Company stock has a beta of 1.5 and a required rate of return of 17%. According to CAPM, determine the return on the market portfolio.

- A) 27.5%
- B) 19.0%
- C) 14.0%
- D) 12.0%

Answer: <https://biology-forums.com/index.php?topic=1848308>

Question 128

Depreciation is a non-cash deduction so it may be ignored in the calculation of a project's incremental after-tax cash flows.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848885>

Question 129

A supply curve is also a maximum-supply-price curve.

Answer: <https://biology-forums.com/index.php?topic=1850121>

Question 130

If the price of a CD is equal to the equilibrium price, there will be _____ of CDs and the price will _____.

- A) surplus; rise
- B) surplus; fall
- C) shortage; fall
- D) neither a shortage nor surplus; not change

Answer: <https://biology-forums.com/index.php?topic=1850071>

Question 131

The Missouri River Pendant Company uses commercial paper to satisfy part of its short-term financing requirements. Next week, it intends to sell \$18 million in 90-day maturity paper on which it expects to have to pay discounted interest at an annual rate of 7 percent per annum. In addition, Stoney River expects to incur a cost of approximately \$25,000 in dealer placement fees and other expenses of issuing the paper. What is the effective annual cost of credit to Missouri River?

- A) 7.7%
- B) 7.5%
- C) 7.3%
- D) 7.1%

Answer: <https://biology-forums.com/index.php?topic=1849490>

Question 132

The spot exchange rate is 1.57 dollars per pound. The 30-day forward exchange rate is .6211 pounds per dollar. Therefore, pounds in the forward market are selling at a _____ to the current spot rate.

- A) .958 discount
- B) .958 premium
- C) .04 discount
- D) .04 premium

Answer: <https://biology-forums.com/index.php?topic=1849560>

Question 133

The future value of an annuity due is greater than the future value of an otherwise identical ordinary annuity.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848109>

Question 134

What managerial logic might lie behind a stock split or a stock dividend?

Answer: <https://biology-forums.com/index.php?topic=1849248>

Question 135

Jerry is studying three nights per week and his grade point average is 3.1. He wants a higher GPA and decides to study an extra night each week. His GPA now rises to 3.5. Had Jerry not decided to study an extra night, he would have spent this night with his friends. What is Jerry's marginal benefit from studying for one additional night a week? What is his marginal cost of increasing the study time by one night per week? Why does Jerry decide to study an extra night?

Answer: <https://biology-forums.com/index.php?topic=1849799>

Question 136

A wildcat oil driller has enough capital to invest in only one project, that is, to drill one well in an East Texas oil field. A major oil company is drilling 100 wells in the same field. The probability of successfully striking oil is 10% for any well drilled in this field. Which of the following statements is MOST correct concerning the risk involved in these capital budgeting projects?

- A) The risk for the wildcat driller is the same as the risk for the major oil company since they are both drilling in the same oil field.
- B) The appropriate risk for the wildcat driller is systematic risk.
- C) The appropriate risk for the major oil company is contribution-to-firm risk, if all shareholders of the firm are well diversified.
- D) The best measure of risk for the wildcat oil driller is project standing alone risk.

Answer: <https://biology-forums.com/index.php?topic=1848960>

Question 137

MDX Sales Corp. is expecting a 10% increase in sales next year. MDX has an inventory balance of \$1,000,000 and uses the percent of sales forecasting method. Which of the following could explain why the inventory forecast of \$1,100,000 might be too high?

- A) The current inventory balance of \$1,000,000 is lower than usual because of a one-time end of year fire sale.
- B) The company is going to change its depreciation method in the coming year.
- C) The growth in sales could be as high as 15%.
- D) A fixed amount of inventory is required to do business, so inventory doesn't increase proportionally with sales.

Answer: <https://biology-forums.com/index.php?topic=1849347>

Question 138

Southland Tours has net income of \$2 million this year. The book value of Southland Tours common equity is \$8 million dollars. The company's dividend payout ratio is 60% and is expected to remain this way. What is Southland Tours' internal growth rate?

- A) 6%
- B) 9%
- C) 10%
- D) 15%

Answer: <https://biology-forums.com/index.php?topic=1848558>

Question 139

Three basic factors that determine which sources of short-term financing a firm uses are the effective cost of financing, the availability of credit, and the influence of the use of a particular credit source on the cost and availability of other sources of financing.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849386>

Question 140

Which of the following is an unsecured short-term bank loan made for a specific purpose?

- A) mortgage bond

- B) line of credit
- C) revolving credit agreement
- D) transaction loan

Answer: <https://biology-forums.com/index.php?topic=1849489>

Question 141

Tempo Corp. will issue preferred stock to finance a new artillery line. The firm's existing preferred stock pays a dividend of \$4.00 per share and is selling for \$40 per share. Investment bankers have advised Tempo that flotation costs on the new preferred issue would be 5% of the selling price. Tempo's marginal tax rate is 30%. What is the relevant cost of new preferred stock?

- A) 7.00%
- B) 7.37%
- C) 10.00%
- D) 10.53%
- E) 15.00%

Answer: <https://biology-forums.com/index.php?topic=1848639>

Question 142

Cash and credit management are typically the responsibility of the

- A) controller.
- B) vice president of production and operations.
- C) chief executive officer, or CEO.
- D) treasurer.

Answer: <https://biology-forums.com/index.php?topic=1847623>

Question 143

The corporation is a legal entity separate from its owners; thus it is possible for the corporation to continue even upon the death of one or more shareholders.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847637>

Question 144

An increase the expected future price of a good

- A) increases its demand.
- B) decreases its demand.
- C) increases its supply.
- D) has no effect on either its demand or its supply.

Answer: <https://biology-forums.com/index.php?topic=1850034>

Question 145

The after-tax cost of equity equals one minus the marginal tax rate times the required rate of return on common stock.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848605>

Question 146

An all-stock portfolio is more risky than a portfolio consisting of all bonds.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848243>

Question 147

Some time ago the government of China required many highly skilled technicians and scientists to engage in unskilled agricultural labor in order to develop "proper social attitudes." This policy probably caused China to produce

- A) at an inappropriate point along its production possibilities frontier.
- B) outside its production possibilities frontier with respect to food, but inside with respect to high-technology goods.
- C) inside its production possibilities frontier with respect to food, but outside with respect to high-technology goods.
- D) inside its production possibilities frontier.

Answer: <https://biology-forums.com/index.php?topic=1849904>

Question 148

Other things equal, individuals in high-income tax brackets should have a preference for firms that retain their earnings rather than pay dividends.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849154>

Question 149

Who is an arbitrageur? How does an arbitrageur make money?

Answer: <https://biology-forums.com/index.php?topic=1849575>

Question 150

Opportunity cost is represented on the production possibilities frontier by

- A) attainable and unattainable points.
- B) efficient and inefficient points.
- C) the amount of good Y forgone when more of good X is produced.
- D) technological progress.

Answer: <https://biology-forums.com/index.php?topic=1849919>

Question 151

The stock market with the most stringent listing requirements is the

- A) New York Stock Exchange (NYSE).
- B) NASDAQ Stock Market.
- C) American Stock Exchange (AMEX).
- D) All organized exchanges have the same listing requirements in order to make trading fair for all investors.

Answer: <https://biology-forums.com/index.php?topic=1847711>

Question 152

Moving from one point on the production possibilities frontier to another _____.

- A) involves a tradeoff but does not incur an opportunity cost
- B) involves an opportunity cost but no tradeoff
- C) involves a tradeoff and incurs an opportunity cost
- D) involves no tradeoff but it does incur an opportunity cost

Answer: <https://biology-forums.com/index.php?topic=1849915>

Question 153

DAS, Inc. declared a \$0.50 per share dividend on June 1. The date of record is June 20th, the ex-dividend date is June 18th, and the payment date is June 31st. Andre owns a share of stock on June 1. Andre sells his share to Brett on June 19th, and Brett sells the share to LaMarcus on June 29th. Who will receive the dividend?

- A) Andre
- B) Brett
- C) LaMarcus
- D) no one, since the share was not owned consistently by one person over the period

Answer: <https://biology-forums.com/index.php?topic=1849216>

Question 154

Both Investor A and Investor B are considering the purchase of Corporation FJR bonds. The bonds are selling at a price of \$1,100 each. Investor A decides to buy the bonds and Investor B does not buy the bonds.

- A) Investor A must have a required return lower than the required return for Investor B.
- B) The yield to maturity for Investor A must be higher than the yield to maturity for Investor B.
- C) The yield to maturity for Investor A must be less than the yield to maturity for Investor B.
- D) The yield to maturity for this bond must be higher than the coupon rate.

Answer: <https://biology-forums.com/index.php?topic=1848388>

Question 155

A sinking-fund provision allows for the retirement of a portion of preferred stock each year.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848467>

Question 156

A project's annual free cash flow is the change in operating cash flow less any change in net working capital and less any change in capital spending.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848895>

Question 157

If current interest rates are low, and therefore expected to increase in the future, a firm wanting to reduce its interest rate risk would hold debt with longer maturities.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849643>

Question 158

Which of the following decreases the supply of restaurant meals?

- A) Waiters get a pay raise.
- B) Consumers' incomes increase and restaurant meals are a normal good.
- C) Consumers' incomes decrease and restaurant meals are a normal good.
- D) The price of movies, a complement to restaurant meals, falls.

Answer: <https://biology-forums.com/index.php?topic=1850042>

Question 159

If the demand curve is a downward sloping straight line, the price elasticity of demand always

- A) increases as the demand curve shifts rightward.
- B) increases as the demand curve shifts leftward.
- C) increases with movements upward along the demand curve.
- D) decreases with movements upward along the demand curve.

Answer: <https://biology-forums.com/index.php?topic=1850135>

Question 160

Valley Manufacturing Inc. just issued \$1,000 par 20-year bonds. The bonds sold for \$758.18 and pay interest semiannually. Investors require a rate of 9% on the bonds. What is the bonds' coupon rate?

- A) 6%
- B) 7%
- C) 8%
- D) 9%

Answer: <https://biology-forums.com/index.php?topic=1848393>

Question 161

The "bird-in-the-hand" dividend theory suggests that

- A) high dividends increase stock value because shareholders believe they can earn a higher return than the company.
- B) high dividends increase stock value because shareholders are more certain of the dividend yield than of potential future capital gains.
- C) high dividends increase stock value because capital markets are inefficient and dividends are the only sure way to get money from an equity investment.
- D) high dividends decrease stock value because dividend payments take money out of the corporate "nest" and reduce the ability of the corporation to function effectively.

Answer: <https://biology-forums.com/index.php?topic=1849163>

Question 162

For companies in competitive markets, the evolution and introduction of new products may serve more to preserve market share than to expand it.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848853>

Question 163

DXZ, Inc. currently produces one product which sells for \$250 per unit. The company's fixed costs are \$75,000 per year; variable costs are \$205 per unit. A salesman has offered to sell the company a new piece of equipment which will increase fixed costs to \$100,000. The salesman claims that the company's break-even point will not be altered if the company purchases this equipment. What will be the company's new variable cost per unit?

Answer: <https://biology-forums.com/index.php?topic=1849025>

Question 164

Covered interest arbitrage can be taken advantage of when premiums in forward rates are not exactly equal to the interest rate differential between two countries.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849537>

Question 165

If a corporation were to choose between issuing a debenture, a mortgage bond, or a subordinated debenture, which would have the highest yield to maturity, everything else equal?

- A) the debenture
- B) the mortgage bond
- C) the subordinated debenture
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=1848332>

Question 166

Preferred stock differs from common stock in that

- A) preferred stock usually has a maturity date.
- B) preferred stock investors have a higher required return than common stock investors.
- C) preferred stock dividends are fixed.
- D) common stock investors have a required return and preferred stock investors do not.

Answer: <https://biology-forums.com/index.php?topic=1848477>

Question 167

Describe exchange rate risk in direct foreign investment.

Answer: <https://biology-forums.com/index.php?topic=1849577>

Question 168

The price of DDS Corporation stock is expected to be \$45 in 5 years. Dividends are anticipated to increase at an annual rate of 10 percent from the most recent dividend of \$1.00. If your required rate of return is 15 percent, how much are you willing to pay for DDS stock?

Answer: <https://biology-forums.com/index.php?topic=1848570>

Question 169

The present value of a single future sum of money is inversely related to both the number of years until payment is received and the discount rate. [b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848074>

Question 170

A bakery company is considering one capital budgeting project involving the replacement of a sophisticated brick oven, and another capital budgeting project involving research and development into synthetic food substitutes. Which of the following statements is MOST correct concerning the risk-adjusted discount rate(s) for the projects?

- A) The rate will likely be higher for the replacement project because the likelihood of success is higher.
- B) The rate will likely be higher for the research and development project because of the uncertainty involved with research and development projects.
- C) The rate should be the same for both projects because they are being considered by one company with the same common shareholders.
- D) The rate should be higher for the replacement project because the company is more certain of the returns from a project similar to their existing business.

Answer: <https://biology-forums.com/index.php?topic=1848965>

Question 171

Your company is considering the replacement of an old delivery van with a new one that is more efficient. The old van cost \$40,000 when it was purchased 5 years ago. The old van is being depreciated using the simplified straight-line method over a useful life of 8 years. The old van could be sold today for \$7,000. The new van has an invoice price of \$80,000, and it will cost \$6,000 to modify the van to carry the company's products. Cost savings from use of the new van are expected to be \$28,000 per year for 5 years, at which time the van will be sold for its estimated salvage value of \$18,000. The new van will be depreciated using the simplified straight-line method over its 5-year useful life. The company's tax rate is 35%. Working capital is expected to increase by \$5,000 at the inception of the project, but this amount will be recaptured at the end of year five. What is the incremental free cash flow for year one?

- A) \$18,875
- B) \$19,985
- C) \$22,305
- D) \$24,220

Answer: <https://biology-forums.com/index.php?topic=1848901>

Question 172

White Company stock has a beta of 2 and a required return of 23%, while Black Company stock has a beta of 1.0 and a required return of 14%. The

standard deviation of returns for White Company is 10% more than the standard deviation for Black Company. The risk-free rate of return according to the CAPM is

- A) 4%.
- B) 5%.
- C) 6%.
- D) impossible to determine with the information given.

Answer: <https://biology-forums.com/index.php?topic=1848300>

Question 173

A justification for no dividend payments that would be pleasing to shareholders could be

- A) insufficient cash available for dividend payments.
- B) positive NPV investment projects that require the firm to retain cash for investment purposes.
- C) an investor clientele that prefers current liquidity.
- D) cash will be used for a stock dividend.

Answer: <https://biology-forums.com/index.php?topic=1849175>

Question 174

To evaluate or compare investment proposals, we must adjust the value of all cash flows to a common date.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848104>

Question 175

The cost of external equity capital is greater than the cost of retained earnings because of

- A) flotation costs on new equity.
- B) increasing marginal tax rates.
- C) higher dividends.
- D) greater risk for shareholders.

Answer: <https://biology-forums.com/index.php?topic=1848631>

Question 176

The negotiated purchase is the most prevalent method of securities distribution in the private sector.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847731>

Question 177

Financial markets exist in order to allocate savings in the economy to the demanders of those savings.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847691>

Question 178

The CAPM designates the risk-return trade-off existing in the market, where risk is defined in terms of beta.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848285>

Question 179

If company A has a lower average collection period than company B, then company A will have a higher accounts receivable turnover.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847948>

Question 180

The provisions of the Sarbanes-Oxley Act of 2002, or SOX, apply to all U.S.-based corporations, as well as to foreign corporations conducting business in U.S. markets.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847746>

Question 181

The balance sheet equation is Total Assets = Total Revenues - Total Liabilities.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847844>

Question 182

One of the virtues of the percent-of-sales method is the precision of the estimate of future financing needs.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849285>

Question 183

All of the following are methods available to a corporation that desires to repurchase stock EXCEPT

- A) offer to employees who own an interest in the firm.
- B) open market.
- C) tender offer to all existing stockholders.
- D) offer to one or more major stockholders on a negotiated basis.

Answer: <https://biology-forums.com/index.php?topic=1849261>

Question 184

An example of a price floor is a

- A) rent control.
- B) minimum wage.
- C) subsidy.
- D) quota.

Answer: <https://biology-forums.com/index.php?topic=1850300>

Question 185

When y changes, x stays the same. The line depicting this relationship would be

- A) vertical.
- B) horizontal.
- C) linear with a negative slope.
- D) linear with a positive slope.

Answer: <https://biology-forums.com/index.php?topic=1849852>

Question 186

If the beta for stock A equals zero, then

- A) stock A's required return is equal to the required return on the market portfolio.
- B) stock A's required return is equal to the risk-free rate of return.
- C) stock A has a guaranteed return.
- D) stock A's required return is greater than the required return on the market portfolio.

Answer: <https://biology-forums.com/index.php?topic=1848294>

Question 187

DAS, Inc. has a line of credit with FBT Bank that allows DAS to borrow up to \$400,000 at an annual interest rate of 11 percent. However, DAS must keep a compensating balance of 25 percent of any amount borrowed on deposit at the bank. DAS does not normally have a cash balance account with the bank. What is the effective annual cost of credit?

- A) 11.45%
- B) 12.59%
- C) 14.67%
- D) 16.00%

Answer: <https://biology-forums.com/index.php?topic=1849488>

Question 188

Any project deemed acceptable using the discounted payback period will also be acceptable if using the traditional payback period.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848747>

Question 189

The cross elasticity of demand measures the responsiveness of the quantity demanded of a particular good to changes in the prices of

- A) its substitutes and its complements.
- B) its substitutes but not its complements.
- C) its complements but not its substitutes.
- D) neither its substitutes nor its complements.

Answer: <https://biology-forums.com/index.php?topic=1850185>

Question 190

Forward rates are all of the following EXCEPT

- A) quoted in both direct and indirect form.
- B) quoted at a premium or discount.
- C) beneficial to risk-reduction.
- D) equal to future spot rates.

Answer: <https://biology-forums.com/index.php?topic=1849562>

Question 191

The faster an automobile is driven (speed), the lower the miles per gallon (mpg) for that automobile. Given this information, we say that an automobile's speed and mpg have

- A) a direct relationship.
- B) an inverse relationship.
- C) a linear relationship.
- D) a maximum relationship.

Answer: <https://biology-forums.com/index.php?topic=1849844>

Question 192

You are a retired worker whose income is derived from your company pension plan and social security. However, you are highly dependent upon the income generated from your 401(k) plan, which is heavily weighted in stocks that pay substantial dividends. Which of the following dividend policies would you prefer?

- A) constant dividend payment ratio
- B) stable dollar dividend per share
- C) small, regular dividend plus a year-end extra
- D) Any of the above would be equally desirable.

Answer: <https://biology-forums.com/index.php?topic=1849212>

Question 193

Historically, investments with the highest returns have the lowest standard deviations because investors do not like risk.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848228>

Question 194

Determine the five-year equivalent annual annuity of the following project if the appropriate discount rate is 16%.

Initial Outflow = \$150,000

Cash Flow Year 1 = \$40,000

Cash Flow Year 2 = \$90,000

Cash Flow Year 3 = \$60,000

Cash Flow Year 4 = \$0

Cash Flow Year 5 = \$80,000

- A) \$7,058
- B) \$8,520
- C) \$9,454
- D) \$9,872

Answer: <https://biology-forums.com/index.php?topic=1848824>

Question 195

An efficient market is one where the prices of the assets traded in that market fully reflect all available information at any instant in time.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847569>

Question 196

Because only the largest and most creditworthy companies are able to use commercial paper, the interest rate on commercial paper is generally lower than the prime rate.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849469>

Question 197

A bond selling at a discount will have a built-in capital gain if the bond is held to maturity.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848440>

Question 198

Acme Incorporated has a debt ratio of .42, noncurrent liabilities of \$20,000 and total assets of \$70,000. What is Acme's level of current liabilities?

- A) \$8,400
- B) \$9,400
- C) \$12,348
- D) \$10,600

Answer: <https://biology-forums.com/index.php?topic=1848023>

Question 199

Inflation affects the EOQ model in all of the following ways EXCEPT

- A) changing the investment in accounts receivable.
- B) encourages anticipatory buying.
- C) increased carrying costs.
- D) encourages buying early to avoid price increases.

Answer: <https://biology-forums.com/index.php?topic=1849781>

Question 200

Production points inside the PPF are

- A) efficient but not attainable.
- B) efficient and attainable.
- C) inefficient and not attainable.
- D) inefficient and attainable.

Answer: <https://biology-forums.com/index.php?topic=1849950>

Question 201

Which of the following statements is true regarding convertible bonds?

- A) The holder has the right to sell these bonds back to the issuer if the bonds don't perform well.
- B) The holder can convert these bonds into an equal number of new bonds if they choose to do so.
- C) These bonds are convertible into common stock of the issuing firm at a prespecified price.
- D) These bonds have a variable interest rate.

Answer: <https://biology-forums.com/index.php?topic=1848331>

Question 202

Sources of spontaneous financing include trade credit, salaries payable, and accrued taxes.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849419>

Question 203

Which of the following can prevent markets from reaching the efficient level of production?

- I. a monopoly
- II. taxes
- III. the product is a public good

- A) I and II
- B) II
- C) II and III
- D) I, II and III

Answer: <https://biology-forums.com/index.php?topic=1850272>

Question 204

The three basic types of issues addressed by the study of finance are

- A) capital budgeting, capital structure decisions, and working capital management.
- B) capital budgeting, working capital management, and investment analysis.
- C) capital structure decisions, working capital management, and sustained profitability.

D) capital budgeting, investment analysis, and cash management.

Answer: <https://biology-forums.com/index.php?topic=1847622>

Question 205

The financial manager selecting one of two projects of differing risk should

- A) select the project with the larger risk-adjusted net present value.
- B) choose the project with the least relative risk.
- C) choose the project with greater return even if that project has greater risk.
- D) choose the project with less risk even though that project has less return.

Answer: <https://biology-forums.com/index.php?topic=1848971>

Question 206

Which of the following should be included in an analysis of a new project's cash flows?

- A) any sales from existing products that would be lost if customers were expected to purchase a new product instead
- B) all financing costs
- C) all sunk costs
- D) no opportunity costs

Answer: <https://biology-forums.com/index.php?topic=1848864>

Question 207

The Euro increased dramatically in value against the U.S. dollar between 2000 and 2009. The result has been that

- A) U.S. exports are more competitive in Europe.
- B) U.S. goods cost more in Europe.
- C) U.S. travelers are finding it less expensive to travel in Europe.
- D) European exports to the United States are more competitive.

Answer: <https://biology-forums.com/index.php?topic=1849555>

Question 208

Last year a very severe ice storm hit the north counties of New York state, and the states of Vermont and Maine. Electric poles were down and no one had power for days. It was reported that the price of kerosene heaters skyrocketed and the number purchased increased during this time. Using a supply and demand diagram, show the impact of the ice storm on the market for kerosene heaters.

Answer: <https://biology-forums.com/index.php?topic=1850114>

Question 209

Which of the following forms of business organizations provide limited liability to all its owners?

- A) general partnership
- B) limited partnership
- C) corporation
- D) both B and C

Answer: <https://biology-forums.com/index.php?topic=1847655>

Question 210

John Box Inc. has an annual interest expense of \$30,000 and pays income tax equal to 40 percent of taxable income (EBT). John Box's times-interest-earned ratio is 4.2. What is John Box's net income?

- A) \$96,000
- B) \$57,000
- C) \$126,000
- D) \$57,600

Answer: <https://biology-forums.com/index.php?topic=1848025>

Question 211

Total risk equals systematic risk plus unsystematic risk.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848245>

Question 212

In a chattel mortgage, specific items of inventory are identified in the security agreement.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849465>

Question 213

A weakness in the capital budgeting process is the funds for an investment proposal obtained by issuing bonds, and the respective interest payments, are not considered in the capital budgeting process.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848875>

Question 214

The common stock of a constant-growth firm is valued in the same manner as its preferred stock.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848535>

Question 215

The Bolster Company is considering two mutually exclusive projects:

Year Initial Outlay NPV

0-\$100,000-\$100,000

131,2500

231,2500

331,2500

431,2500

531,250 200,000

The required rate of return on these projects is 12 percent.

- What is each project's payback period?
- What is each project's discounted payback period?
- What is each project's net present value?
- What is each project's internal rate of return?
- Fully explain the results of your analysis. Which project do you prefer, and why?

Answer: <https://biology-forums.com/index.php?topic=1848797>

Question 216

The elasticity of demand for Dell computers is probably

- inelastic and smaller than the elasticity of demand for computers overall.
- elastic and smaller than the elasticity of demand for computers overall.
- inelastic but larger than the elasticity of demand for computers overall.
- elastic and larger than the elasticity of demand for computers overall.

Answer: <https://biology-forums.com/index.php?topic=1850180>

Question 217

The Native Industries, Inc. is going to issue 180-day commercial paper to raise \$25 million. It anticipates a discounted interest rate of 13 percent, and dealer placement costs of approximately \$60,000. What is the effective annual cost of credit to Native Industries?

- 13.46%
- 14.06%
- 14.45%
- 15.38%

Answer: <https://biology-forums.com/index.php?topic=1849491>

Question 218

Lower asset turnover ratios are generally indicative of more efficient asset management.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847952>

Question 219

A bond is a long-term promissory note issued by the firm.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848327>

Question 220

The value of the euro floats against other major international currencies, but has a fixed value when compared to the currencies of the countries in the European Union, such as the French franc and the German mark.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849538>

Question 221

At an annual interest rate of 9%, an initial sum of money will double approximately every 8 years.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848072>

Question 222

If the quantity of textbooks supplied is 10,000 per year and the quantity of textbooks demanded is 12,000 per year, there is a _____ in the market and the price will _____.

- A) shortage; rise
- B) shortage; fall
- C) surplus; rise
- D) surplus; fall

Answer: <https://biology-forums.com/index.php?topic=1850079>

Question 223

You are going to add one of the following three projects to your already well-diversified portfolio.

PROJECT 1 PROJECT 2

Probability Return Standard Deviation Beta Probability Return Standard Deviation Beta

50% Chance 22% 12% 1.130% Chance 36% 19.5% 0.8

50% Chance -4% 40% Chance 10.5%

30% Chance -20%

PROJECT 3

Probability Return Standard Deviation Beta

10% Chance 28% 12% 2.0

70% Chance 18%

20% Chance -8%

Assume the risk-free rate of return is 2% and the market risk premium is 8%. If you are a risk averse investor, which project should you choose?

- A) Project 1
- B) Project 2
- C) Project 3
- D) Either Project 2 or Project 3 because the higher expected return on project 3 offsets its higher risk

Answer: <https://biology-forums.com/index.php?topic=1848302>

Question 224

Assume that Bunch Inc. has an issue of 18-year \$1,000 par value bonds that pay 7% interest, annually. Further assume that today's required rate of return on these bonds is 5%. How much would these bonds sell for today? Round off to the nearest \$1.

- A) \$1,233.79
- B) \$1,201.32
- C) \$1,134.88
- D) \$1,032.56

Answer: <https://biology-forums.com/index.php?topic=1848398>

Question 225

An important (additional) consideration for a direct foreign investment is

- A) political risk.
- B) maximizing the firm's profits.
- C) attaining a high international P/E ratio.
- D) maintaining the domestic cost of capital.

Answer: <https://biology-forums.com/index.php?topic=1849610>

Question 226

Private equity funds tend to focus their investments in situations where promised returns are very high and the need for funds is brief.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848976>

Question 227

The Sarbanes-Oxley Act of 2002, in order to protect investors, requires a higher level of accountability for which of the following groups?

- A) corporate officers
- B) public accountants
- C) boards of directors
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=1847768>

Question 228

The Siskiyou Manufacturing Company will collect an estimated \$12,000,000 next year; and it will receive an estimated 20,000 checks. Siskiyou's bank has offered to set up a lock-box system that will reduce float time by 4.5 days. The cost of the system will be \$.15 per check. What is the minimum annual interest rate on its cash balance that Siskiyou should receive before it would be willing to adopt the lock-box system?

- A) 3.25%
- B) 2.03%
- C) 1.82%
- D) 1.07%

Answer: <https://biology-forums.com/index.php?topic=1849686>

Question 229

Financial leverage has to do with

- A) the usage of fixed cost financial securities to finance a portion of a firm's assets.
- B) using common stock to finance a portion of a firm's assets.
- C) the incurrence of fixed operating costs in the firm's income stream.
- D) a high gross profit margin.

Answer: <https://biology-forums.com/index.php?topic=1849061>

Question 230

A U.S. corporation investing in a foreign corporation by purchasing stock on a foreign stock exchange is an example of direct foreign investment.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849520>

Question 231

All of the following are benefits of organized stock exchanges EXCEPT

- A) increased stock price volatility.
- B) continuous markets.
- C) fair security prices.
- D) easier access to new capital for business expansion.

Answer: <https://biology-forums.com/index.php?topic=1847710>

Question 232

The independence hypothesis suggests that the total market value of the firm's outstanding securities is unaffected by its capital structure.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849073>

Question 233

Calculating the modified internal rate of return on an Excel spreadsheet involves the use of the IRR function multiple times, once using the financing rate, and once using the reinvestment rate.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848753>

Question 234

The independence hypothesis allows for bankruptcy and agency costs.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849082>

Question 235

The formula for the slope across an arc is used to approximate the slope for

- A) linear relationships only.
- B) a curved line.
- C) a positive relationship only.
- D) a negative relationship only.

Answer: <https://biology-forums.com/index.php?topic=1849867>

Question 236

- A public good can be consumed by
- A) only one person who does not have to pay for it.
 - B) only one person who has to pay for it.
 - C) everyone simultaneously, as long as they pay for it.
 - D) everyone simultaneously, even if they do not pay for it.

Answer: <https://biology-forums.com/index.php?topic=1850269>

Question 237

A company with negative net income will also have negative operating cash flow.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847887>

Question 238

If the increase in net working capital is recovered entirely at the end of the project, then it may be ignored.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848877>

Question 239

According to the hedging principle, plant and equipment should be financed with

- A) commercial paper.
- B) long-term funds.
- C) short-term bank loans.
- D) spontaneous financing.

Answer: <https://biology-forums.com/index.php?topic=1849426>

Question 240

Rural Hydroponics has total equity of \$560,000; sales of \$2,250,000; current assets of \$700,000; and total liabilities of \$435,000. What is Rural Hydroponics' total asset turnover?

- A) 4.02
- B) 3.21
- C) 2.26
- D) 5.51

Answer: <https://biology-forums.com/index.php?topic=1848034>

Question 241

Budgets should not be used for performance evaluation because there is too much uncertainty involved and this makes it unfair to the person being evaluated.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849352>

Question 242

Notes payable is a spontaneous source of financing.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849416>

Question 243

How do agency costs and free cash flow relate to capital structure management?

Answer: <https://biology-forums.com/index.php?topic=1849099>

Question 244

P.D. Corporation is considering the purchase of a high-speed lathe that has an invoice price of \$250,000. The cost to ship the lathe to P.D.'s factory is \$10,000, and the existing facilities will require modifications that are expected to cost \$20,000. The machine will be depreciated on a straight-line basis over its useful life of 10 years, assuming no salvage value. P.D. Corporation is planning on paying for the lathe using a line of credit at the bank that has an interest rate of 6 percent per year. The lathe is expected to increase production and sales. Sales are expected to increase by \$100,000 per year. Inventory and accounts receivable balances are expected to increase by \$10,000 and \$20,000 respectively. Expenses to operate the lathe are \$25,000 per year. P.D.'s marginal tax rate is 40%.

- a. Calculate the initial outlay required to fund this project.
b. Calculate the incremental after-tax cash flow in year one of the project.

Answer: <https://biology-forums.com/index.php?topic=1848933>

Question 245

According to the principle of comparative advantage, if a rich country trades with a poor country, then

- A) the rich country will benefit and the poor country will lose.
B) the rich country will lose and the poor country will benefit.
C) both countries will benefit.
D) neither of the countries will benefit.

Answer: <https://biology-forums.com/index.php?topic=1850002>

Question 246

What is a spot transaction? What is a direct quote? An indirect quote?

Answer: <https://biology-forums.com/index.php?topic=1849574>

Question 247

For a typical firm expecting higher sales, external financing needed will be greater than discretionary financing needed.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849271>

Question 248

The Boyles Ceramics, Inc. established a line of credit with a local bank. The maximum amount that can be borrowed under the terms of the agreement is \$1,000,000 at an annual rate of 8 percent. A compensating balance averaging 25 percent of the amount borrowed is required. Prior to the agreement, Boyles had no deposit with the bank. Shortly after signing the agreement, Boyles needed \$240,000 to pay off a note that was due. It borrowed the \$240,000 from the bank by drawing on the line of credit. What is the effective annual cost of credit?

- A) 12.50%
B) 11.11%
C) 10.67%
D) 8.85%

Answer: <https://biology-forums.com/index.php?topic=1849486>

Question 249

The cross elasticity of demand is calculated as the percentage change in the

- A) quantity demanded of one good divided by the percentage change in the price of another good
B) price of one good divided by the percentage change in the quantity demanded of another good.
C) quantity demanded of one good divided by the percentage change in the quantity demanded of another good.
D) price of one good divided by the percentage change in the price of another good.

Answer: <https://biology-forums.com/index.php?topic=1850186>

Question 250

According to the CAPM, for each unit of beta, an asset's required rate of return increases by the market's return.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848287>

Question 251

When the price of a movie ticket falls from \$14 to \$10, the quantity of tickets demanded increases from 500 to 700 a day. What is the price elasticity of demand for movie tickets? (Use the midpoint method.)

Answer: <https://biology-forums.com/index.php?topic=1850200>

Question 252

The percent of sales method does not provide a reasonable prediction of asset levels for instances when there are economies of scale in the use of the asset being forecast and when asset purchases are lumpy.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849267>

Question 253

S-type corporations have all of the following advantages EXCEPT

- A) they are taxed as partnerships.

- B) the owners have limited liability.
- C) distributions are taxed twice, similar to corporate dividend payments.
- D) all owners must be people, no corporations.

Answer: <https://biology-forums.com/index.php?topic=1847642>

Question 254

Is it possible for the cash budget and the pro forma income statement to have different results?

- A) yes, because revenues and expenses included in each statement are different
- B) yes, because revenues and expenses are accounted for over different time periods
- C) no, because they contain the same variables, while just using different formats
- D) no, because the cash budget and the pro forma income statement provide forecasts for the same time period

Answer: <https://biology-forums.com/index.php?topic=1849371>

Question 255

Suppose the demand for wine is elastic and that initially 5 million bottles of wine are produced and consumed in the United States. If the government imposes a tax of \$2 per bottle of wine, the government will collect

- A) more than \$10 million in tax revenues.
- B) \$10 million in tax revenues.
- C) less than \$10 million in tax revenues.
- D) an amount that may be more than, equal to, or less than \$10 million in tax revenues depending on the precise elasticity of demand.

Answer: <https://biology-forums.com/index.php?topic=1850331>

Question 256

Lithium, Inc. is considering two mutually exclusive projects, A and B. Project A costs \$95,000 and is expected to generate \$65,000 in year one and \$75,000 in year two. Project B costs \$120,000 and is expected to generate \$64,000 in year one, \$67,000 in year two, \$56,000 in year three, and \$45,000 in year four. The firm's required rate of return for these projects is 10%. The net present value for Project A is

- A) \$12,358.
- B) \$16,947.
- C) \$19,458.
- D) \$26,074.

Answer: <https://biology-forums.com/index.php?topic=1848763>

Question 257

Shasta Co. just paid a dividend of \$1.65 (D₀) on its common stock. This company's dividends are expected to grow at a constant rate of 3% indefinitely. If the required rate of return on this stock is 11%, compute the current value per share of Shasta stock.

- A) \$20.63
- B) \$21.24
- C) \$15.00
- D) \$55.00

Answer: <https://biology-forums.com/index.php?topic=1848565>

Question 258

Since stockholders are able to reduce their exposure to risk by efficiently diversifying their holdings of securities, there is no reason for individual firms to seek diversification of their holdings of assets.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848943>

Question 259

Preferred stock is riskier than long-term debt because its claim on assets and income come after those of bonds.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848461>

Question 260

Project LMK requires an initial outlay of \$400,000 and has a profitability index of 1.5. The project is expected to generate equal annual cash flows over the next twelve years. The required return for this project is 20%. What is project LMK's net present value?

- A) \$600,000
- B) \$150,000
- C) \$120,000
- D) \$80,000

Answer: <https://biology-forums.com/index.php?topic=1848760>

Question 261

You purchased 500 shares of A.M.J. Inc. common stock one year ago for \$50 per share. You received a dividend of \$2 per share today and decide to take your profits by selling at \$54.50 per share. What is your holding period return?

- A) 13.0%
- B) 9.0%
- C) 6.5%
- D) 4.0%

Answer: <https://biology-forums.com/index.php?topic=1848273>

Question 262

When terminating a project for capital budgeting purposes, the working capital outlay required at the initiation of the project will

- A) not affect the terminal cash flow.
- B) decrease the terminal cash flow because it is a historical cost.
- C) increase the terminal cash flow because it is recaptured.
- D) decrease the terminal cash flow because it is an outlay.

Answer: <https://biology-forums.com/index.php?topic=1848911>

Question 263

The clientele effect does not imply that either high or low dividends are optimal, rather that firms should not make significant and arbitrary changes in their existing dividend policy.

[b][True or False]/b]

Answer: <https://biology-forums.com/index.php?topic=1849151>

Question 264

The beta of a T-bill is zero.

[b][True or False]/b]

Answer: <https://biology-forums.com/index.php?topic=1848249>

Question 265

If a project uses an asset the corporation already owns, the cost of that asset for capital budgeting purposes is zero to reflect the advantage the project has over projects that require the purchase of new assets.

[b][True or False]/b]

Answer: <https://biology-forums.com/index.php?topic=1848852>

Question 266

If a firm with credit terms of 1/10 net 30 were to change its terms to 3/10 net 30, the result would probably be

- A) increased bank loans.
- B) increased accounts receivable turnover.
- C) an increase in the average level of accounts receivable.
- D) a decrease in accounts payable.

Answer: <https://biology-forums.com/index.php?topic=1849741>

Question 267

You own an annuity due contract that will pay you \$3,000 per year for 12 years. You need money to pay back a loan in 5 years, and you are afraid if you get the annuity payments annually you will spend the money and not be able to pay back your loan. You decide to sell your annuity for a lump sum of cash to be paid to you five years from today. If the interest rate is 8%, what is the equivalent value of your 12-year annuity if paid in one lump sum five years from today?

- A) \$22,008
- B) \$18,000
- C) \$35,876
- D) \$38,880

Answer: <https://biology-forums.com/index.php?topic=1848126>

Question 268

A six-year project for Little Egypt, Inc. results in additional accounts receivable of \$150,000, additional inventory of \$50,000, and additional accounts payable of \$80,000 today. What is the change in the NPV of a project solely due to the additional net working capital (NWC) needs? Assume a 14% discount rate, and the recovery of net working capital at the end of the project.

- A) a decrease of \$34,606

- B) a decrease of \$42,670
- C) a decrease of \$120,000
- D) a decrease of \$58,689

Answer: <https://biology-forums.com/index.php?topic=1848907>

Question 269

A corporation needing cash sells securities to investors in the secondary market.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847673>

Question 270

Investment banking firms are prohibited from selling securities due to conflicts of interest.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847734>

Question 271

Accounting profits is the most relevant variable the financial manager uses to measure returns.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848200>

Question 272

The portfolio beta is simply the sum of the betas of the individual stocks in the portfolio.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848258>

Question 273

Although interest rates are generally higher on long-term debt, using more long-term debt rather than short-term debt can reduce the risk of illiquidity and decrease uncertainty related to interest rate changes.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849390>

Question 274

Newtown Manufacturing, Inc. uses semi-hex joints in its manufacturing process. If Newtown's total demand for the joints for next year is estimated to be 57,000 units, and if the cost per order is \$225, what is Newtown's economic order quantity of semi-hex joints? Assume that carrying costs for semi-hex joints are \$0.75 per unit.

- A) 3,729
- B) 3,987
- C) 4,944
- D) 5,848

Answer: <https://biology-forums.com/index.php?topic=1849776>

Question 275

The financial manager most directly responsible for producing the company's financial statements and directing its cost accounting functions is the

- A) chief financial officer.
- B) controller.
- C) treasurer.
- D) vice president-financier.

Answer: <https://biology-forums.com/index.php?topic=1847620>

Question 276

When the opportunity cost of producing more of a good is increasing, the marginal cost of producing more of the good is

- A) decreasing.
- B) constant.
- C) increasing.
- D) More information is needed to answer the question.

Answer: <https://biology-forums.com/index.php?topic=1849965>

Question 277

You decide you want your child to be a millionaire. You have a son today and you deposit \$10,000 in an investment account that earns 7% per year.

The money in the account will be distributed to your son whenever the total reaches \$1,500,000. How old will your son be when he gets the money (rounded to the nearest year)?

- A) 82 years
- B) 74 years
- C) 60 years
- D) 49 years

Answer: <https://biology-forums.com/index.php?topic=1848081>

Question 278

Which of the following statements concerning net income is MOST correct?

- A) Net income represents cash available to pay dividends.
- B) Net income represents sales minus operating expenses at a specific point in time.
- C) Negative net income reduces a company's cash balance.
- D) Net income represents income that may be reinvested in the firm or distributed to its owners.

Answer: <https://biology-forums.com/index.php?topic=1847831>

Question 279

Consider a project with the following information:

Year After-tax Accounting Profits from After-tax

Cash Flow Operations

1 \$799 \$750

2 1501,000

3 2001,200

Initial outlay = \$1,500

Compute the profitability index if the company's discount rate is 10%.

- A) 15.8
- B) 1.61
- C) 1.81
- D) 0.62

Answer: <https://biology-forums.com/index.php?topic=1848780>

Question 280

DuPont analysis indicates that the return on equity may be boosted above the return on assets by using leverage (debt).

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847958>

Question 281

CrochetCo is considering an investment in a project which would require an initial outlay of \$350,000 and produce expected cash flows in years 1-5 of \$95,450 per year. You have determined that the current after-tax cost of the firm's capital (required rate of return) for each source of financing is as follows:

Cost of Long-Term Debt 7%

Cost of Preferred Stock 11%

Cost of Common Stock 15%

Long-term debt currently makes up 25% of the capital structure, preferred stock 15%, and common stock 60%. What is the net present value of this project?

- A) -\$9,306
- B) \$2,149
- C) \$5,983
- D) \$11,568

Answer: <https://biology-forums.com/index.php?topic=1848677>

Question 282

QRW Corp. needs to replace an old lathe with a new, more efficient model. The old lathe was purchased for \$50,000 nine years ago and has a current book value of \$5,000. (The old machine is being depreciated on a straight-line basis over a ten-year useful life.) The new lathe costs \$100,000. It will cost the company \$10,000 to get the new lathe to the factory and get it installed. The old machine will be sold as scrap metal for \$2,000. The new machine is also being depreciated on a straight-line basis over ten years. Sales are expected to increase by \$8,000 per year while operating expenses are expected to decrease by \$12,000 per year. QRW's marginal tax rate is 40%. Additional working capital of \$3,000 is required to maintain the new machine and higher sales level. The initial outlay for the new machine is

- A) \$113,000.
- B) \$112,200.
- C) \$111,000.

D) \$109,800.

Answer: <https://biology-forums.com/index.php?topic=1848914>

Question 283

All of the following are potential advantages of commercial paper EXCEPT

- A) flexible repayment terms.
- B) lower interest rates than comparable sources of short-term financing.
- C) no compensating balance requirements.
- D) ability to borrow very large amounts.

Answer: <https://biology-forums.com/index.php?topic=1849476>

Question 284

Answer the questions below using the following information on stocks A, B, and C.

ABC

Expected Return 20% 21% 10%

Standard Deviation 12% 10% 10%

Beta 1.82 20.8

Assume the risk-free rate of return is 3% and the expected market return is 12%

a. Calculate the required return for stocks A, B, and C.

b. Assuming an investor with a well-diversified portfolio, which stock would the investor want to add to his portfolio?

c. Assuming an investor who will invest all of his money into one security, which stock will the investor choose?

Answer: <https://biology-forums.com/index.php?topic=1848313>

Question 285

Marginal cost is the _____ one more unit of a good and _____ of the good increases.

- A) opportunity cost of producing; increases as production
- B) opportunity cost of producing; decreases as production
- C) price that must be paid to consume; increases as consumption
- D) price that must be paid to consume; decreases as consumption

Answer: <https://biology-forums.com/index.php?topic=1849962>

Question 286

Tim has \$100 in a bank account paying 2% interest per year. At the end of 5 years, Tim's bank account balance will be \$110 if interest is not compounded, but will be greater than \$110 if interest is compounded.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848071>

Question 287

A forward exchange contract

- A) gives the owner the right, but not the obligation, to buy a foreign currency at a fixed exchange rate for a fixed period of time.
- B) gives the owner the right to purchase a foreign currency at some point in the future and any gains or losses are credited/debited to the account at the close of business each day.
- C) requires delivery, at a specified future date, of one currency for a specified amount of another currency.
- D) requires delivery, within two working days, of one currency for a specified amount of another currency.

Answer: <https://biology-forums.com/index.php?topic=1849571>

Question 288

Which of the following is a reason for international investment?

- A) to reduce portfolio risk
- B) to increase P/E ratio
- C) to gain an advantage in a foreign country
- D) to gain access to foreign currency

Answer: <https://biology-forums.com/index.php?topic=1849523>

Question 289

A bottle of German wine costs 21 (euros) in Berlin. According to the purchasing power parity theory, what would the bottle sell for in New York if it costs the New York company \$1.25 per bottle to transport the wine to the United States? Assume the exchange rate is \$1.32 per euro.

- A) \$40.54
- B) \$28.97

C) \$27.22

D) \$39.50

Answer: <https://biology-forums.com/index.php?topic=1849590>

Question 290

The economic order quantity (EOQ) model is well accepted. However, there are weaknesses associated with several of its assumptions. What are these weaknesses?

Answer: <https://biology-forums.com/index.php?topic=1849788>

Question 291

LRQ Inc. issued bonds on July 1, 2006. The bonds had a coupon rate of 5.5%, with interest paid semiannually. The face value of the bonds is \$1,000 and the bonds mature on July 1, 2021. What is the intrinsic value of an LRQ Corporation bond on July 1, 2012 to an investor with a required return of 7%?

A) \$901.08

B) \$902.27

C) \$1,000.00

D) \$1,104.28

Answer: <https://biology-forums.com/index.php?topic=1848396>

Question 292

All of the following measure liquidity EXCEPT

A) current ratio.

B) inventory turnover.

C) acid-test ratio.

D) operating return on assets.

Answer: <https://biology-forums.com/index.php?topic=1847971>

Question 293

Which of the following changes will make the value of a stock go up, other things being held constant?

A) The required return decreases.

B) The required return increases.

C) In general, investors become more risk averse.

D) The growth rate of dividends decreases.

Answer: <https://biology-forums.com/index.php?topic=1848538>

Question 294

A fast-growing company with many high net present value projects may maximize shareholder wealth by NOT paying a dividend.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849130>

Question 295

If the price of lumber rises, then, in the market for sawdust

A) the supply curve of sawdust shifts leftward.

B) the supply curve of sawdust shifts rightward.

C) there is a movement downward along the supply curve for sawdust.

D) there is a movement upward along the supply curve for sawdust.

Answer: <https://biology-forums.com/index.php?topic=1850048>

Question 296

How do operating and financial leverage interact to affect the volatility of a firm's earnings per share?

Answer: <https://biology-forums.com/index.php?topic=1849065>

Question 297

Which of the following statements is MOST correct concerning flotation costs?

A) Flotation costs are the same for common stock, preferred stock and bonds because they reflect mainly printing costs and legal fees.

B) Flotation costs are generally higher for bonds rather than stocks because the dollar amounts involved are much higher, allowing for economies of scale.

C) Flotation costs as a percentage of gross proceeds increase as the size of the security issue increases.

D) Flotation costs are higher for common stocks than for preferred stocks and bonds due to the higher level of risk associated with owning common

stock.

Answer: <https://biology-forums.com/index.php?topic=1847763>

Question 298

A stock repurchase plan that involves issuing long-term debt to fund the purchase of the company's stock may be used as a way to alter a corporation's capital structure.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849252>

Question 299

Since stock dividends do not require payment in cash, their impact on a corporation's share price can be only positive (if there is an information effect) or neutral, but not negative.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849136>

Question 300

Name the benefits derived from the existence of stock exchanges.

Answer: <https://biology-forums.com/index.php?topic=1847727>

Question 301

The purpose of work-in-process inventory is to ensure that machine failures and work stoppages in one operation do not affect other operations.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849769>

Question 302

If the quantity of wood purchased decreases when the price of wood rises, a graph representing these variables would have

- A) time on the vertical axis.
- B) the slope on the vertical axis.
- C) a negative slope.
- D) a positive slope.

Answer: <https://biology-forums.com/index.php?topic=1849845>

Question 303

The objective of managing cash inflows is to decrease the float while the objective of managing cash outflows is to increase the float.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849629>

Question 304

Which of the following measures the average relationship between a stock's returns and the market's returns?

- A) coefficient of validation
- B) standard deviation
- C) geometric regression
- D) beta coefficient

Answer: <https://biology-forums.com/index.php?topic=1848274>

Question 305

What has brought on the era of the multinational corporation?

Answer: <https://biology-forums.com/index.php?topic=1847668>

Question 306

A Johnson corporation bond is currently selling for \$850. The bond matures in 20 years, has a face value of \$1,000, and a yield to maturity of 14.30%. The bond's coupon rate is

- A) 10%.
- B) 11%.
- C) 12%.
- D) 13%.

Answer: <https://biology-forums.com/index.php?topic=1848395>

Question 307

Due to unstable world markets, most large U.S. corporations do almost all of their business in the United States.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847665>

Question 308

If a project's profitability index is less than one, then the project should be rejected.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848731>

Question 309

Which of the following is the most relevant measure of risk for capital budgeting purposes?

- A) project standing alone risk
- B) contribution-to-firm risk
- C) symbiotic risk
- D) unsystematic risk

Answer: <https://biology-forums.com/index.php?topic=1848963>

Question 310

A decrease in the level of production results in decreased fixed cost per unit.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848994>

Question 311

NPV assumes reinvestment of intermediate free cash flows at the cost of capital, while IRR assumes reinvestment of intermediate free cash flows at the IRR.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848741>

Question 312

A corporation announces a significant increase in its annual dividend and its stock price increases on the news. This could be explained most directly by

- A) residual dividend theory.
- B) bird-in-the-hand theory.
- C) perfect capital markets.
- D) MM's indifference theorem.

Answer: <https://biology-forums.com/index.php?topic=1849157>

Question 313

Bond prices are inversely related to market interest rates.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848443>

Question 314

Ted can study for his economics exam or go to a concert. He decides to study for his economics exam instead of going to the concert. The concert he will miss is Ted's _____ of studying for the exam.

- A) opportunity cost
- B) explicit cost
- C) implicit cost
- D) discretionary cost

Answer: <https://biology-forums.com/index.php?topic=1849917>

Question 315

A bond will sell at a premium (above par value) if

- A) the market value of the bond is greater than the discount rate of the bond.
- B) investor's current required rate of return is below the coupon rate of the bond.
- C) current market interest rates are moving in the same direction as bond values.
- D) the economy is in a recession.

Answer: <https://biology-forums.com/index.php?topic=1848449>

Question 316

The firm's cost of capital may also be referred to as the firm's opportunity cost of capital.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848587>

Question 317

The profitability index is the ratio of the present value of the future free cash flows to the initial investment.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848737>

Question 318

Ticket scalpers at the NCAA basketball tournament last year charged prices high above the printed ticket price. This observation is evidence of

A) a surplus at printed ticket prices.

B) a shortage at printed ticket prices.

C) the tournament not being televised.

D) the tournament getting too much television exposure.

Answer: <https://biology-forums.com/index.php?topic=1850078>

Question 319

Baker Corp. is required by a debt agreement to maintain a current ratio of at least 2.5, and Baker's current ratio now is 3. Baker wants to purchase additional inventory for its upcoming Christmas season, and will pay for the inventory with short-term debt. How much inventory can Baker purchase without violating its debt agreement if their total current assets equal \$15 million?

A) \$0.50 million

B) \$1.67 million

C) \$4.50 million

D) \$6.00 million

Answer: <https://biology-forums.com/index.php?topic=1847972>

Question 320

If Cindy deposits \$12,000 into a bank account that pays 6% interest compounded semiannually, what will the account balance be in seven years?

A) 18,151

B) 14,356

C) 16,987

D) 15,555

Answer: <https://biology-forums.com/index.php?topic=1848187>

Question 321

If two variables are unrelated, a scatter diagram of those variables will

A) be a vertical line.

B) be a horizontal line.

C) be either a vertical or horizontal line.

D) have a constant positive slope.

Answer: <https://biology-forums.com/index.php?topic=1849855>

Question 322

In order to create value, a corporation must earn a rate of return on its invested capital that is higher than the market's required rate of return on that invested capital.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848585>

Question 323

HomeCraft makes wooden play sets. The company pays annual rent of \$400,000 per year and pays administrative salaries totaling \$150,000 per year. Each play set requires \$400 of wood, ten hours of labor at \$70 per hour, and variable overhead costs of \$100. Fixed advertising expenses equal \$100,000 per year. Each play set sells for \$3,200. What is HomeCraft's break-even output level?

A) 340 play sets

B) 325 play sets

C) 297 play sets

D) 258 play sets

Answer: <https://biology-forums.com/index.php?topic=1849007>

Question 324

Which of the following is the least liquid?

- A) U.S. Treasury bills
- B) commercial paper
- C) money-market mutual funds
- D) federal agency securities

Answer: <https://biology-forums.com/index.php?topic=1849700>

Question 325

Within the context of a stock repurchase, what is meant by a tender offer?

Answer: <https://biology-forums.com/index.php?topic=1849264>

Question 326

Limited partnerships are not as prevalent as corporations because

- A) limited partners can lose up to three times the amount they invested in the partnership if the business goes bankrupt.
- B) limited partnerships have the disadvantage of double taxation.
- C) the general partner has no liability, making it difficult for the partnership to borrow money.
- D) it is easier to transfer ownership by selling common stock than it is to sell partnership.

Answer: <https://biology-forums.com/index.php?topic=1847646>

Question 327

Once the weighted average cost of capital (WACC) is determined, then all projects of average risk will be compared to the original WACC regardless of the size of the capital budget.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848662>

Question 328

What are mutually exclusive projects? How might they complicate the capital-budgeting process?

Answer: <https://biology-forums.com/index.php?topic=1848834>

Question 329

If a firm currently has excess capacity, then using the percent of sales method to forecast its fixed asset balance will likely result in an overestimate of the fixed asset balance and an inflated amount of discretionary financing needed.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849344>

Question 330

Capital budgeting projects that expand sales are more likely to involve increases in working capital than are projects that involve the replacement of existing assets.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848888>

Question 331

The inventory loan arrangement in which all of the borrower's inventories are used as collateral is termed a

- A) terminal warehouse agreement.
- B) floating lien agreement.
- C) chattel mortgage agreement.
- D) field warehouse financial agreement.

Answer: <https://biology-forums.com/index.php?topic=1849480>

Question 332

Determining how a firm should raise money to fund its long-term investments is referred to as capital structure decisions.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847618>

Question 333

After a \$3 per-unit tax on seeing movies in theaters is imposed, attendance falls from 4,000 a week to 3,000 a week. The revenue from the tax is

- A) less than \$9,000 a week.
- B) \$9,000 a week.
- C) between \$9,000 a week and \$12,000 a week.
- D) some amount that cannot be calculated without more information.

Answer: <https://biology-forums.com/index.php?topic=1850349>

Question 334

The demand curve for microwave popcorn is linear. Which of the following definitely makes the demand for microwave popcorn more inelastic?

- A) a decrease in the price of microwave popcorn
- B) an increase in the price of microwave popcorn
- C) an increase in income
- D) a decrease in income

Answer: <https://biology-forums.com/index.php?topic=1850142>

Question 335

According to the bird-in-the-hand dividend theory, investors value a dollar of expected capital gain more highly than a dollar of expected dividends because capital gains are more unpredictable than dividends.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849146>

Question 336

Unlike market value, the intrinsic value of an asset is estimated independently of risk.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848362>

Question 337

Solar Confectionary develops a new candy bar and plans to sell each bar for \$1. Solar predicts that 1 million candy bars will be sold in the first year if the new candy bar is produced and sold, and includes \$1 million of incremental revenues in its capital budgeting analysis. A senior executive in the company believes that 1 million candy bars will be sold, but lowers the estimate of incremental revenue to \$700,000. What would explain this change?

- A) cannibalization of 300,000 of Solar Confectionary's other candy bars
- B) excessive marketing costs to sell the 1 million candy bars
- C) a lower discount rate
- D) a higher selling price for the new candy bars

Answer: <https://biology-forums.com/index.php?topic=1848858>

Question 338

Which of the following is (are) false?

- A) The constant dividend payout ratio policy seeks to pay a constant percentage of earnings each year.
- B) The stable dollar dividend per share policy seeks to maintain a relatively stable percentage dividend over time.
- C) The small, regular dividend plus a year-end extra policy pays a small, regular dividend plus a year-end extra dividend in good years.
- D) The constant dividend payout ratio policy will result in more variability in dividends than the stable dollar dividend per share policy.

Answer: <https://biology-forums.com/index.php?topic=1849213>

Question 339

HighLev Incorporated borrows heavily and uses the leverage to boost its return on equity to 30% this year, nearly 10% higher than the industry average. However, HighLev's stock price decreases relative to its industry counterparts. How is this possible?

- A) Markets are inefficient and fail to recognize the benefits of leverage.
- B) The increased debt resulted in interest payments that made HighLev's operating income drop even though return on equity increased.
- C) Shareholders are not interested in return on equity.
- D) The high levels of debt increased the riskiness of HighLev relative to its competitors.

Answer: <https://biology-forums.com/index.php?topic=1847980>

Question 340

The calculation of incremental free cash flows over a project's life should include

- A) labor and material saving.
- B) additional revenue.

C) interest to bondholders.

D) A and B.

Answer: <https://biology-forums.com/index.php?topic=1848856>

Question 341

One way to improve a company's cash conversion cycle is to increase its days sales outstanding.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849439>

Question 342

Suppose the following rates are averages for banks in your area: interest checking accounts pay 1%, savings accounts pay 2%, and one-year certificates of deposit pay 3%. All accounts are federally insured by the FDIC. The difference in rates can be explained mainly by

A) liquidity premiums.

B) default risk premiums.

C) maturity premiums.

D) inflation risk premiums.

Answer: <https://biology-forums.com/index.php?topic=1847788>

Question 343

Why should we be more concerned with the marginal tax rate rather than the average tax rate?

Answer: <https://biology-forums.com/index.php?topic=1847920>

Question 344

If two countries specialize in the production of goods in which they have a comparative advantage, they can experience gains from trade.

Answer: <https://biology-forums.com/index.php?topic=1850027>

Question 345

Pizza and hamburgers are substitutes for consumers. A fall in the price of a pizza _____ the price of a hamburger and _____ the quantity of hamburgers.

A) raises; increases

B) raises; decreases

C) lowers; increases

D) lowers; decreases

Answer: <https://biology-forums.com/index.php?topic=1850106>

Question 346

What does a net present value profile tell you, and how is it constructed? How does the IRR enter into the net present value profile?

Answer: <https://biology-forums.com/index.php?topic=1848799>

Question 347

Borrowing money causes a corporation's return on operating assets to decrease because of the interest that must be paid.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847943>

Question 348

Charlie's consumer surplus from the first slice of pizza he buys is greater than the consumer surplus from the second slice because of

A) decreasing marginal benefits.

B) increasing marginal benefits.

C) decreasing marginal costs.

D) increasing marginal cost.

Answer: <https://biology-forums.com/index.php?topic=1850242>

Question 349

If there are no external costs or benefits, no price or quantity regulations, no taxes or subsidies, and the good is not a public good or a common resource, then efficiency is

A) achieved when a monopoly produces the good.

B) achieved when the good is produced in a competitive market.

C) achieved when the amount of output exceeds the amount produced in a competitive market.

D) unrelated to the amount produced in a competitive market.

Answer: <https://biology-forums.com/index.php?topic=1850267>

Question 350

If you expect NoDiv Corporation to sell for \$75 per share in three years while paying no dividends along the way, and if your required rate of return is 16% per year, how much is the stock worth today?

- A) \$42.68
- B) \$48.05
- C) \$51.10
- D) \$74.64

Answer: <https://biology-forums.com/index.php?topic=1848563>

Question 351

For many industries, accounts receivable comprise as much as 25 percent of total assets.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849724>

Question 352

Exchange rate risk is the risk that exchange rates will be lower in the future than they are today.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849595>

Question 353

Cabell Corp. bonds pay an annual coupon rate of 10%. If investors' required rate of return is now 12% on these bonds, they will be priced at

- A) par value.
- B) a premium to par value.
- C) a discount to par value.
- D) Cannot be determined without knowing the number of years to maturity.

Answer: <https://biology-forums.com/index.php?topic=1848447>

Question 354

Wendy purchased 800 shares of Genetics Stock at \$3 per share on 1/1/12. Wendy sold the shares on 12/31/12 for \$3.45. Genetics stock has a beta of 1.9, the risk-free rate of return is 4%, and the market risk premium is 9%. Wendy's holding period return is

- A) 15.0%.
- B) 16.5%.
- C) 17.6%.
- D) 21.1%.

Answer: <https://biology-forums.com/index.php?topic=1848261>

Question 355

The moderate view of capital structure theory allows for the tax-deductibility of interest expense.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849074>

Question 356

The guiding rule in deciding if a free cash flow is incremental is to look at the company with, versus without, the new project.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848837>

Question 357

Conceptually, stock dividends and stock splits may be expected to increase the shareholder's value.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849229>

Question 358

The price of a computer today is \$400 and inflation is 5% per year. Therefore, in two years the price of the computer is expected to be \$440.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848166>

Question 359

A retailer sells most of its merchandise on credit and bills clients monthly. Which of the following elements of float does the retailer have the most control over?

- A) mail float
- B) processing float
- C) transit float
- D) disbursing float

Answer: <https://biology-forums.com/index.php?topic=1849706>

Question 360

What are the implications for a firm's capital investment decisions of using a company-wide cost of capital when the firm has multiple operating divisions that have unique risk attributes and capital costs?

Answer: <https://biology-forums.com/index.php?topic=1848703>

Question 361

ABC Corporation began operations on January 1st of this year with a cash balance of \$250,000. ABC had sales of \$200,000 for the month of January, all on credit. ABC allows its customers 30 days to pay. ABC's expenses for January equal \$150,000, and ABC's ending balance in accounts payable at January 31st is \$50,000. In its cash budget for January, ABC's ending cash balance should be equal to

- A) \$300,000 because of GAAP accrual accounting rules.
- B) \$150,000.
- C) \$200,000.
- D) \$100,000.

Answer: <https://biology-forums.com/index.php?topic=1849362>

Question 362

Anchor Incorporated has a beta of 1.0. If the expected return on the market is 15%, what is the expected return on Anchor Incorporated's stock?

- A) 15%
- B) 14%
- C) 18%
- D) cannot be determined without the risk-free rate

Answer: <https://biology-forums.com/index.php?topic=1848303>

Question 363

A rise in the price of a good causes producers to supply more of the good. This statement illustrates

- A) the law of supply.
- B) the law of demand.
- C) a change in supply.
- D) the nature of an inferior good.

Answer: <https://biology-forums.com/index.php?topic=1850059>

Question 364

The risk-return trade-off in managing a firm's working capital involves which of the following?

- A) a trade-off between liquidity and activity
- B) a trade-off between debt and equity
- C) a trade-off between the firm's liquidity and its profitability
- D) none of the above

Answer: <https://biology-forums.com/index.php?topic=1849401>

Question 365

Discretionary financing needed is equal to the predicted change in total assets minus the change in retained earnings.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849270>

Question 366

Issuers of commercial paper usually maintain lines of credit with banks to back up their short-term financing needs.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849462>

Question 367

Which of the following has the highest interest rate risk?

- A) a 20-year U.S. Treasury bond
- B) Bendix Corporation six-month commercial paper
- C) a six-month money-market certificate at a federally issued bank
- D) a Southwest Airlines bond maturing in four years

Answer: <https://biology-forums.com/index.php?topic=1849696>

Question 368

One positive feature of the payback period is it emphasizes the earliest forecasted free cash flows, which are less uncertain than later cash flows and provide for the liquidity needs of the firm.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848735>

Question 369

If the price is above the equilibrium price, then there is a

- A) surplus, and market forces will operate to lower price.
- B) surplus, and market forces will operate to raise price.
- C) shortage, and market forces will operate to lower price.
- D) shortage, and market forces will operate to raise price.

Answer: <https://biology-forums.com/index.php?topic=1850084>

Question 370

International Financial Reporting Standards (IFRS) is a set of principle-based accounting standards that were established by the International Accounting Standards Board (IASB).

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847912>

Question 371

What is the internal rate of return's assumption about how cash flows are reinvested?

- A) They are reinvested at the firm's discount rate.
- B) They are reinvested at the required rate of return.
- C) They are reinvested at the project's internal rate of return.
- D) They are only reinvested at the end of the project.

Answer: <https://biology-forums.com/index.php?topic=1848791>

Question 372

Fred and Ethel are both considering buying a corporate bond with a coupon rate of 8%, a face value of \$1,000, and a maturity date of January 1, 2025. Which of the following statements is MOST correct?

- A) Because both Fred and Ethel will receive the same cash flows if they each buy a bond, they both must assign the same value to the bond.
- B) If Fred decides to buy the bond, then Ethel will also decide to buy the bond, if markets are efficient.
- C) Fred and Ethel will only buy the bonds if the bonds are rated BBB or above.
- D) Fred may determine a different value for a bond than Ethel because each investor may have a different level of risk aversion, and hence a different required return.

Answer: <https://biology-forums.com/index.php?topic=1848381>

Question 373

Adding gourmet coffee stations to my convenience store is expected to increase sales of my breakfast sandwiches; however, the sales of breakfast sandwiches should not be included in the evaluation of the gourmet coffee project because only relevant, incremental cash flows should be considered.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848850>

Question 374

How managers choose to finance the business does not affect the rate of return to shareholders because the rate of return is based on how the company uses the assets it has, not whether or not they paid for the assets with debt or equity.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847962>

Question 375

The social arrangements that govern the ownership, use, and disposal of property are referred to as

- A) the double coincidence of wants.
- B) capitalism.
- C) private enterprise.
- D) property rights.

Answer: <https://biology-forums.com/index.php?topic=1850010>

Question 376

If the price of gasoline rose from \$2.85 to \$2.95 per gallon, your expenditure on gasoline would increase if your price elasticity of demand for gasoline equals

- A) 1.25.
- B) 1.00.
- C) 0.75.
- D) Total revenue would increase at all of the above elasticities.

Answer: <https://biology-forums.com/index.php?topic=1850167>

Question 377

A way of managing a firm's cash disbursements would be through

- A) zero balance accounts.
- B) accounts receivable factoring.
- C) lockbox system.
- D) floating lien.

Answer: <https://biology-forums.com/index.php?topic=1849689>

Question 378

On the horizontal axis of a graph, generally

- A) values increase from left to right.
- B) values increase from right to left.
- C) values can be positive and/or negative.
- D) Both answers A and C are correct.

Answer: <https://biology-forums.com/index.php?topic=1849812>

Question 379

How a sales tax is divided between buyers and sellers is determined by

- A) the government's choice of whom to tax.
- B) who the law says must pay the tax.
- C) the elasticities of supply and demand.
- D) the revenue needs of government.

Answer: <https://biology-forums.com/index.php?topic=1850332>

Question 380

Operating leverage means financing a portion of a firm's earnings per share with debt.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849035>

Question 381

Which of the following best describes cash flow from financing activities?

- A) Interest income, plus dividend income, minus taxes
- B) Interest expense, minus dividends paid
- C) Interest paid, plus dividends paid, plus increase (or minus decrease) in stock, plus increase (or minus decrease) in debt
- D) Increase (or minus decrease) in stock, plus increase (or minus decrease) in debt, minus interest paid, minus dividends paid

Answer: <https://biology-forums.com/index.php?topic=1847903>

Question 382

Which of the following categories of owners have limited liability?

- A) general partners
- B) sole proprietors

- C) shareholders of a corporation
- D) both A and B

Answer: <https://biology-forums.com/index.php?topic=1847654>

Question 383

Which of the following statements about combined (operating & financial) leverage is true?

- A) If a firm employs both operating and financial leverage, any percent change in sales will produce a larger percent change in earnings per share.
- B) A firm that is in a capital-intensive industry should use a higher level of financial leverage than a firm that employs low levels of operating leverage.
- C) Usage of both operating and financial leverage reduces a firm's risk.
- D) High operating leverage and high financial leverage offset one another, meaning that if sales increase by 10%, then EPS will also increase by 10%.

Answer: <https://biology-forums.com/index.php?topic=1849063>

Question 384

One potential rationale for paying dividends is that the payment of dividends indirectly results in a closer monitoring of management's investment activities, hence lowering agency costs.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849127>

Question 385

Traditional financial forecasting takes the sales forecast as given and forecasts the corresponding expenses, assets, and liabilities of the firm.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849283>

Question 386

Idaho Mining, Inc. borrows at prime plus 1.5% on its line of credit. The line requires a 15% compensating balance. If the prime rate is 9% and Idaho Mining plans on borrowing for a period of one year, what is the nominal APR of the line of credit?

- A) 9.0%
- B) 6.0%
- C) 10.6%
- D) 12.4%

Answer: <https://biology-forums.com/index.php?topic=1849448>

Question 387

If a market is NOT in equilibrium, then which of the following is likely to occur?

- A) The demand curve will shift to bring the market to equilibrium.
- B) The supply curve will shift to bring the market to equilibrium.
- C) The price will adjust to bring the market to equilibrium.
- D) Both A and B are correct.

Answer: <https://biology-forums.com/index.php?topic=1850073>

Question 388

To determine the periodic interest payments that a bond makes, multiply the bond's stated coupon rate by its par value and divide by the number of coupon payments per year.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848353>

Question 389

The marginal social benefit curve for a product can be the same as the good's

- A) marginal cost curve.
- B) supply curve.
- C) demand curve.
- D) consumer surplus curve.

Answer: <https://biology-forums.com/index.php?topic=1850240>

Question 390

It is important to consider a new project's affect on the cash flows of existing projects because of

- A) cannibalism.
- B) synergy.
- C) sunk costs.

D) A and B above.

Answer: <https://biology-forums.com/index.php?topic=1848865>

Question 391

Why do currency exchange rates throughout the world trade within a very narrow range on any given day?

- A) because of purchasing power parity
- B) because of the international translation effect
- C) because of arbitrage
- D) because of the law of one price

Answer: <https://biology-forums.com/index.php?topic=1849569>

Question 392

In order to profit from an expected near-term increase in the relative value of the British pound versus the U.S. dollar, an investor would be wise to maintain a short position in pounds, then sell when the pound rises in relative value.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849536>

Question 393

What is the hedging principle or principle of self-liquidating debt?

Answer: <https://biology-forums.com/index.php?topic=1849432>

Question 394

If the quantity supplied exceeds the quantity demanded, then there is

- A) a shortage and the price is below the equilibrium price.
- B) a shortage and the price is above the equilibrium price.
- C) a surplus and the price is below the equilibrium price.
- D) a surplus and the price is above the equilibrium price.

Answer: <https://biology-forums.com/index.php?topic=1850081>

Question 395

Sam's production possibilities frontier has good A on the horizontal axis and good B on the vertical axis. If Sam is producing at a point inside his frontier, then he

- A) can increase production of both goods with no increase in resources.
- B) is fully using all his resources.
- C) values good A more than good B.
- D) values good B more than good A.

Answer: <https://biology-forums.com/index.php?topic=1849905>

Question 396

Crandle's common stock is currently selling for \$79.00. It just paid a dividend of \$4.60 and dividends are expected to grow at a rate of 5% indefinitely. What is the required rate of return on Crandle's stock?

- A) 11.11%
- B) 11.76%
- C) 12.2%
- D) 14.21%

Answer: <https://biology-forums.com/index.php?topic=1848578>

Question 397

Producers of DVDs are able to lower the wage rate that they pay to their workers. You predict that the

- A) price will rise.
- B) quantity supplied will decrease.
- C) supply curve will shift leftward.
- D) supply curve will shift rightward.

Answer: <https://biology-forums.com/index.php?topic=1850066>

Question 398

On a graph, high correlation between the variable measured along the x-axis and the variable measured along the y-axis

- A) means that changes in the variable measured along the x-axis must cause changes in the variable measured along the y-axis.
- B) means that changes in the variable measured along the y-axis must cause changes in the variable measured along the x-axis.

C) means that changes in either variable must cause changes in the other variable.
D) does NOT mean that a change in the variable measured along the x-axis must cause a change in the variable measured along the y-axis.
Answer: <https://biology-forums.com/index.php?topic=1849828>

Question 399

A capital budgeting project has a net present value of \$30,000 and a modified internal rate of return of 15%. The project's required rate of return is 13%. The internal rate of return is
A) greater than 13%.
B) less than 13%.
C) between 13% and 15%.
D) greater than 15%
Answer: <https://biology-forums.com/index.php?topic=1848762>

Question 400

The time value of money is the opportunity cost of passing up the earning potential of a dollar today.
[b][True or False][b]
Answer: <https://biology-forums.com/index.php?topic=1848059>

Question 401

The principle of risk-return trade-off means that
A) higher risk investments must earn higher returns.
B) an investor who takes more risk will earn a higher return.
C) a rational investor will only take on higher risk if he expects a higher return.
D) an investor who bought stock in a small corporation five years ago has more money than an investor who bought U.S. Treasury bonds five years ago.
Answer: <https://biology-forums.com/index.php?topic=1847586>

Question 402

Subordinated debentures are more risky than unsubordinated debentures because the claims of subordinated debenture holders are less likely to be honored in the event of liquidation.
[b][True or False][b]
Answer: <https://biology-forums.com/index.php?topic=1848320>

Question 403

The balance sheet for the Long Drive Golf Company on September 30, 2010 is presented below:
Long Drive Golf Company Balance Sheet
September 30, 2010
Cash\$528,000Accounts payable\$1,568,000
Accounts receivable1,216,000Notes payable752,000
Inventory2,400,000Total current liabilities2,320,000
Fixed assets5,632,000Long-term debt2,336,000
Common stock3,200,000
Total assets\$9,776,000Retained earnings1,920,000
Total liabilities and stockholders' equity\$9,776,000
The treasurer of the firm wants to issue \$1,200,000 in long-term bonds to be used as follows:
1.\$240,000 to reduce accounts payable
2.\$192,000 to retire notes payable
3.\$128,000 to increase cash on hand
4.\$640,000 to increase inventories
a.Assuming that the loan is obtained, construct a pro forma balance sheet for December 31, 2010, for Long Drive Golf Company that reflects the use of the funds provided.
b.Was the liquidity of Long Drive Golf Company improved by the loan?
Answer: <https://biology-forums.com/index.php?topic=1849340>

Question 404

Anticipatory buying occurs because of an anticipated decrease in interest rates.
[b][True or False][b]
Answer: <https://biology-forums.com/index.php?topic=1849759>

Question 405

A bond rating of "BB" indicates that the company's financial position is above average and hence the default risk on the bonds is very low.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848350>

Question 406

The cost of internal common equity is already on an after-tax basis since dividends paid to common stockholders are not tax deductible.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848611>

Question 407

What provision entitles the common shareholder to maintain a proportionate share of ownership in a firm?

- A) the cumulative feature
- B) the convertible feature
- C) the proportionality clause
- D) the preemptive right

Answer: <https://biology-forums.com/index.php?topic=1848514>

Question 408

Inputs using an Excel spreadsheet are almost identical to those on a financial calculator, except the interest rate is entered either as a decimal (.05) or a whole number followed by a % sign (5%) rather than simply a whole number (5) as you would enter using a financial calculator.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848070>

Question 409

As of year-end 2012, the great economic recession in the United States that began in 2007 has NOT officially ended.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847572>

Question 410

The current ratio of a firm would be increased by which of the following?

- A) Land held for investment is sold for cash.
- B) Equipment is purchased, financed by a long-term debt issue.
- C) Inventories are sold for cash.
- D) Inventories are sold on a credit basis.

Answer: <https://biology-forums.com/index.php?topic=1847984>

Question 411

Earnings available to common shareholders is equal to a corporation's positive net cash flow over a given period, typically one year.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847823>

Question 412

Coyote Inc. operates three divisions. One division involves significant research and development, and thus has a high-risk cost of capital of 15%. The second division operates in business segments related to Coyote's core business, and this division has a cost of capital of 10% based upon its risk. Coyote's core business is the least risky segment, with a cost of capital of 8%. The firm's overall weighted average cost of capital of 11% has been used to evaluate capital budgeting projects for all three divisions. This approach will

- A) favor projects in the core business division because that division is the least risky.
- B) favor projects in the related businesses division because the cost of capital for this division is the closest to the firm's weighted average cost of capital.
- C) favor projects in the research and development division because the higher risk projects look more favorable if a lower cost of capital is used to evaluate them.
- D) not favor any division over the other because they all use the same company-wide weighted average cost of capital.

Answer: <https://biology-forums.com/index.php?topic=1848673>

Question 413

Each of the following factors may cause a corporation to lower its dividend payout ratio EXCEPT

- A) the corporation's earnings predictability is high.
- B) the corporation's current and quick ratios are higher than industry average.
- C) the corporation's retained earnings balance is high.

D) current common shareholders are unable to participate in new equity offerings.

Answer: <https://biology-forums.com/index.php?topic=1849200>

Question 414

A stock repurchase plan can be viewed as both a financing decision and an investment decision.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849253>

Question 415

Which of the following securities will likely have the highest liquidity premium?

- A) U.S. Treasury bond maturing in 2027
- B) Bbb-rated corporate bond maturing in 2020 actively traded on a major exchange
- C) Aaa-rated corporate bond maturing in 2015 not actively traded
- D) U.S. Treasury bill

Answer: <https://biology-forums.com/index.php?topic=1847787>

Question 416

Operating leverage is easier to control and manage than financial leverage because operating leverage deals with the internal workings of the company while financing deals with outside parties.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849030>

Question 417

What is the economic difference between a stock dividend and a stock split?

- A) Stock splits create greater economic benefits to shareholders than stock dividends.
- B) Stock splits increase EPS more than stock dividends.
- C) There is no economic difference between a stock dividend and a stock split.
- D) Stock dividends create greater economic benefits to shareholders than stock splits.

Answer: <https://biology-forums.com/index.php?topic=1849241>

Question 418

Mutually exclusive projects have more than one IRR.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848728>

Question 419

A "Dutch auction" was used by Google to raise money in 2004. A Dutch auction involves

- A) selling bonds in Europe.
- B) allowing investors to submit bids saying how many shares they'd like to buy and at what price.
- C) allowing investment banking firms to submit bids on how many shares they are willing to sell and at what price.
- D) hiring a Dutch firm to sell a company's securities at auction.

Answer: <https://biology-forums.com/index.php?topic=1847760>

Question 420

XRT, Inc. is issuing a \$1,000 par value bond that pays 8.5% interest annually. Investors are expected to pay \$1,100 for the 12-year bond. The firm will pay \$50 per bond in flotation costs. What is the after-tax cost of new debt if the firm is in the 35% tax bracket?

- A) 8.23%
- B) 4.55%
- C) 4.70%
- D) 7.45%

Answer: <https://biology-forums.com/index.php?topic=1848693>

Question 421

A diagram shows the quantity of tomatoes on the horizontal axis and the quantity of coffee on the vertical axis. The quantity of tomatoes remains constant as the quantity of coffee increases. The graph of these data is

- A) a horizontal line.
- B) a vertical line.
- C) a positively sloped line.
- D) a negatively sloped line

Answer: <https://biology-forums.com/index.php?topic=1849854>

Question 422

Exchange rate risk exists for a party to a contract if the contract is denominated in a foreign currency.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849596>

Question 423

A corporate bond has a face value of \$1,000 and a coupon rate of 5%. The bond matures in 15 years and has a current market price of \$925. If the corporation sells more bonds, it will incur flotation costs of \$25 per bond. If the corporate tax rate is 35%, what is the after-tax cost of debt capital?

- A) 3.74%
- B) 4.45%
- C) 5.29%
- D) 6.78%

Answer: <https://biology-forums.com/index.php?topic=1848691>

Question 424

You are considering the purchase of a share of Ranch's common stock. You expect to sell it at the end of 1 year for \$32.00. You will also receive a dividend of \$2.50 at the end of the year. Ranch just paid a dividend of \$2.25. If your required return on this stock is 12%, what is the most you would be willing to pay for it now?

- A) \$28.57
- B) \$33.05
- C) \$20.83
- D) \$30.80

Answer: <https://biology-forums.com/index.php?topic=1848555>

Question 425

Use the "percent of sales method" of preparing pro forma financial statements to determine the projection for next year's accounts receivable. Make the following assumptions: current year's sales are \$45,450,000; current year's cost of goods sold is \$26,950,000; sales are expected to rise by 20%. The firm's investment in accounts receivable in the current year is \$8,600,000. The firm's marginal tax rate is 35%. What is the projection for next year's accounts receivable?

- A) \$11,345,000
- B) \$10,320,000
- C) \$9,575,000
- D) \$8,772,000

Answer: <https://biology-forums.com/index.php?topic=1849322>

Question 426

In the summer 2012 the lobster catch in Maine was especially large, but instead of celebrating the fisherman were suffering from a lower total revenue. (Source: New York Times, July 28, 2012) As the lobster catch increases, there is

- A) a movement along the demand curve, resulting in a higher price and a decreased quantity.
- B) a movement along the demand curve, resulting in a lower price and an increased quantity.
- C) no change in either the price or the quantity.
- D) a movement along the demand curve, resulting in a higher price and an increased quantity.

Answer: <https://biology-forums.com/index.php?topic=1850150>

Question 427

WSM Wine Importers, Inc. purchased 75,000 cases of French wine at a cost of 6,000,000 euros. If the current exchange rate is 0.7576 euros to the U.S. dollar, what is the purchase price of the wine in U.S. dollars?

- A) \$9,684,148
- B) \$9,328,651
- C) \$8,350,012
- D) \$ 7,919,747

Answer: <https://biology-forums.com/index.php?topic=1849566>

Question 428

John calls his stockbroker and instructs him to purchase 100 shares of Microsoft Corporation common stock. This transaction occurs in the

- A) secondary market.
- B) primary market.
- C) credit market.

D) futures market.

Answer: <https://biology-forums.com/index.php?topic=1847704>

Question 429

The annual cash budget not only shows the amount of financing needed for the year, but also when the funds will be needed.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849357>

Question 430

New Jet Airlines plans to issue 14-year bonds with a par value of \$1,000 that will pay \$60 every six months. The bonds have a market price of \$1,220. Flotation costs on new debt will be 4% of the selling price. If the firm has a 35% marginal tax bracket, compute the following:

- a. Yield to maturity of debt
- b. After-tax cost of existing debt
- c. After-tax cost of new debt

Answer: <https://biology-forums.com/index.php?topic=1848645>

Question 431

A nation can produce at a point outside its PPF

- A) when it trades with other nations.
- B) when it produces inefficiently.
- C) when its PPF is bowed out.
- D) never.

Answer: <https://biology-forums.com/index.php?topic=1849956>

Question 432

You invest \$1,000 at a variable rate of interest. Initially the rate is 4% compounded annually for the first year, and the rate increases one-half of one percent annually for five years (year two's rate is 4.5%, year three's rate is 5.0%, etc.). How much will you have in the account after five years?

- A) \$1,276
- B) \$1,359
- C) \$1,462
- D) \$1,338

Answer: <https://biology-forums.com/index.php?topic=1848199>

Question 433

At the efficient level of production, _____.

- A) producer surplus must be greater than consumer surplus
- B) consumer surplus must be greater than producer surplus
- C) there is no deadweight loss
- D) the market price is greater than the monopoly price

Answer: <https://biology-forums.com/index.php?topic=1850265>

Question 434

Macroeconomics is the study of aggregate variables such as national production and unemployment.

Answer: <https://biology-forums.com/index.php?topic=1849803>

Question 435

Along a curved line, the slope at the maximum

- A) is greater than zero.
- B) is zero.
- C) is less than zero.
- D) may be greater than, less than, or equal to zero.

Answer: <https://biology-forums.com/index.php?topic=1849870>

Question 436

Given an accounts receivable turnover of 10 and annual credit sales of \$900,000, the average collection period is

- A) 18.25 days.
- B) 36.50 days.
- C) 90 days.
- D) 40.56 days.

Answer: <https://biology-forums.com/index.php?topic=1847987>

Question 437

If a company sells bonds and uses the proceeds to buy back common stock, the company's financial leverage will increase.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849042>

Question 438

Rogue Corp. has sales of \$4,250,000; the firm's cost of goods sold is \$2,500,000; and its total operating expenses are \$600,000. The firm's interest expense is \$250,000, and the corporate tax rate is 40%. What is Rogue's tax liability?

- A) \$258,000
- B) \$260,000
- C) \$360,000
- D) \$600,000

Answer: <https://biology-forums.com/index.php?topic=1847917>

Question 439

A change in which of the following shifts the demand curve for hamburgers?

- A) an increase in the price of the meat used to produce hamburgers
- B) an increase in the price of a hamburger
- C) a fall in the price of french fries, a complement for hamburgers
- D) an increase in the number of hamburger restaurants

Answer: <https://biology-forums.com/index.php?topic=1850033>

Question 440

Finished goods held for sale are inventory, but raw materials to be used in the production process are considered other assets.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847852>

Question 441

As a firm produces more and more DVDs, the average cost of producing each DVD falls. A curve showing the behavior of the average cost of a DVD as more DVDs are produced

- A) would be positively and then negatively sloped.
- B) would be positively sloped.
- C) would be horizontal.
- D) would be negatively sloped.

Answer: <https://biology-forums.com/index.php?topic=1849843>

Question 442

The risk-return trade-off is seen in many areas of finance.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847566>

Question 443

Due to strict stock market controls, the most a stock's value can drop in one trading day is 5%.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848214>

Question 444

Company A and Company B have the same gross profit margin and the same total asset turnover, but company A has a higher return on equity. This may result from

- A) Company B has more common stock.
- B) Company A has a lower debt ratio.
- C) Company A has lower selling and administrative expenses, resulting in a higher net profit margin.
- D) Company A has lower cost of goods sold, resulting in a higher net profit margin.

Answer: <https://biology-forums.com/index.php?topic=1847978>

Question 445

Denver Systems has total assets of \$1,000,000; common equity of \$400,000; a gross profit of \$800,000; total operating expenses of \$620,000; interest

expense of \$20,000; income taxes of \$74,000; and preferred dividends of \$30,000. What is Denver Systems' return on equity?

- A) 7.5%
- B) 20.0%
- C) 21.5%
- D) 14.0%

Answer: <https://biology-forums.com/index.php?topic=1848038>

Question 446

Abe can catch 15 pounds of fish an hour or pick 30 pounds of fruit an hour. He works an 8-hour day, spending 5 hours picking fruit and 3 hours catching fish. Calculate Abe's opportunity cost of a pound of fruit.

- A) 6 minutes
- B) 3 hours a day
- C) 2 pounds of fish
- D) 0.5 pounds of fish

Answer: <https://biology-forums.com/index.php?topic=1849958>

Question 447

PR Corporation just issued \$1,000 par 20-year bonds. The bonds sold for \$936 and pay interest semiannually. Investors require a rate of 7.00% on the bonds. What is the amount of the semiannual interest payment on the bonds?

- A) \$64.50
- B) \$55.00
- C) \$32.00
- D) \$21.75

Answer: <https://biology-forums.com/index.php?topic=1848394>

Question 448

A company has preferred stock that can be sold for \$21 per share. The preferred stock pays an annual dividend of 3.5% based on a par value of \$100. Flotation costs associated with the sale of preferred stock equal \$1.25 per share. The company's marginal tax rate is 35%. Therefore, the cost of preferred stock is

- A) 18.87%.
- B) 17.72%.
- C) 14.26%.
- D) 12.94%.

Answer: <https://biology-forums.com/index.php?topic=1848621>

Question 449

The cost of capital is the rate that must be earned on an investment project if the project is to increase the value of the common shareholders' investment.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848586>

Question 450

The risk-return trade-off implies that the return on a riskless asset must be zero.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847567>

Question 451

Johnson Production Company paid a dividend yesterday of \$3.50 per share. The dividend is expected to grow at a constant rate of 10% per year. The price of KayCee's common stock today is \$40 per share. If KayCee decides to issue new common stock, flotation costs will equal \$4.00 per share. KayCee's marginal tax rate is 35%. Based on the above information, the cost of retained earnings is

- A) 26.41%.
- B) 20.09%.
- C) 19.63%.
- D) 17.55%.

Answer: <https://biology-forums.com/index.php?topic=1848626>

Question 452

Which of the following parity conditions is (are) correct?

- A) The interest-rate parity theory states that the forward premium/discount should be equal and opposite in size to the national interest rate differential.
- B) The purchasing-power parity theory states that in the long run exchange rate changes tend to reflect international differences in inflation rates.

C) The international Fisher effect states that national interest rate differentials are the result of inflation differentials.
D) All of the above are correct.

Answer: <https://biology-forums.com/index.php?topic=1849594>

Question 453

In theory, shareholders select the board of directors, but in reality, management effectively selects the directors.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848506>

Question 454

Cash budgets do not provide reasonable predictions for asset requirements when the asset purchases are lumpy.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849354>

Question 455

Assume that an investor is offered a choice of a risk-free government bond or a high-risk corporate stock. Further assume that the expected return is the same for both. According to one of the axioms of finance, which investment would be chosen?

- A) the corporate stock
- B) the government bond
- C) neither, the investor would be indifferent
- D) none of the above

Answer: <https://biology-forums.com/index.php?topic=1847605>

Question 456

Which of the following is the slope of the security market line?

- A) beta
- B) one
- C) It varies, and it is steeper for riskier securities.
- D) the market risk premium

Answer: <https://biology-forums.com/index.php?topic=1848310>

Question 457

Capital budgeting decisions are based on free cash flow because free cash flow better reflects when money is received and available for reinvestment than account profits.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848836>

Question 458

If a firm's production process requires high operating leverage (use of fixed costs), then the firm should finance its assets with debt, so that the cost of capital will be reduced and financing costs will remain fixed.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849045>

Question 459

An opportunity cost is a relevant incremental cost for capital budgeting decisions.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848855>

Question 460

If a project has multiple internal rates of return, the lowest rate should be used for decision-making purposes.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848743>

Question 461

Which of the following are characteristics of a limited partnership?

- A) Limited partners may not participate in the management of the limited partnership.
- B) There must be one or more general partners.
- C) General partners have unlimited liability.
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=1847652>

Question 462

Beverly Corp. had total sales of \$1,200,000 in 2010 (80 percent of its sales are credit). The company's gross profit margin is 25 percent, its ending inventory is \$150,000, and its accounts receivable balance is \$90,000. What additional amount of cash could the firm have generated if it had increased its inventory turnover ratio to 9.0 and reduced its average collection period to 28.21875 days?

Answer: <https://biology-forums.com/index.php?topic=1848047>

Question 463

The preferred stock of Wells Co. sells for \$17 and pays a \$1.75 dividend. The net price of the stock after issuance costs is \$15.30. What is the cost of capital for new preferred stock?

Answer: <https://biology-forums.com/index.php?topic=1848652>

Question 464

Joe is deciding whether or not to invest \$10,000 in a business that has pending lawsuits against it. If Joe invests and the business loses the lawsuits, the most Joe can lose is

- A) \$10,000 if Joe is a general partner.
- B) \$10,000 if Joe is a sole proprietor.
- C) \$10,000 if Joe is a limited partner.
- D) \$10,000 plus his share of the lawsuits if Joe is a limited partner.

Answer: <https://biology-forums.com/index.php?topic=1847641>

Question 465

On the vertical axis, the production possibilities frontier shows _____; on the horizontal axis, the production possibilities frontier shows _____.

- A) the quantity of a good; the number of workers employed to produce the good
- B) the quantity of a good; the price of the good
- C) the quantity of a good; a weighted average of resources used to produce the good
- D) the quantity of one good; the quantity of another good

Answer: <https://biology-forums.com/index.php?topic=1849899>

Question 466

The problem with the constant dividend payout ratio is

- A) investors may come to expect a specified amount.
- B) the dollar amount of the dividend fluctuates from year to year.
- C) management is reluctant to cut the dividend even if there are low profits that year.
- D) management cannot decrease the dividend when times are tough.

Answer: <https://biology-forums.com/index.php?topic=1849211>

Question 467

How does compound interest differ from simple interest?

Answer: <https://biology-forums.com/index.php?topic=1848095>

Question 468

Which of the following CORRECTLY describes how price adjustments eliminate a shortage?

- A) As the price rises, the quantity demanded decreases while the quantity supplied increases.
- B) As the price rises, the quantity demanded increases while the quantity supplied decreases.
- C) As the price falls, the quantity demanded decreases while the quantity supplied increases.
- D) As the price falls, the quantity demanded increases while the quantity supplied decreases.

Answer: <https://biology-forums.com/index.php?topic=1850077>

Question 469

If a project is acceptable using the IRR criterion, it will also be acceptable using the MIRR criterion.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848755>

Question 470

A corporation's cost of common equity may be estimated using either a dividend valuation model or the capital asset pricing model.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848600>

Question 471

Financial ratios are used by managers inside the company and by lenders, credit-rating agencies, and investors outside of the company.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847929>

Question 472

If we are able to fully diversify, what is the appropriate measure of risk to use?

- A) expected return
- B) standard deviation
- C) beta
- D) risk-free rate of return

Answer: <https://biology-forums.com/index.php?topic=1848266>

Question 473

Even though many U.S. companies, including General Electric, IBM, Walt Disney, and American Express, have successfully restructured their operations to expand internationally, not many foreign firms have made their mark in the United States.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847666>

Question 474

Prices of securities that are traded on the organized exchanges are determined by

- A) a "bid" and "ask" negotiation process amongst brokers who hold these securities in their own account.
- B) the Securities Exchange Commission.
- C) a continuous auction process reflecting the sentiments of buyers and sellers.
- D) the sellers of the securities.

Answer: <https://biology-forums.com/index.php?topic=1847723>

Question 475

Because the MIRR assumes reinvestment at the cost of capital while IRR assumes reinvestment at the project's IRR, the MIRR will always be less than the IRR.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848752>

Question 476

The cash conversion cycle is equal to the days of sales outstanding plus the days of sales in inventory plus the days of payables outstanding.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849435>

Question 477

Bill and Mary own a small chain of high fashion boutiques that represent almost 100% of their net worth. When considering capital budgeting projects for their boutiques, the appropriate measure of risk is

- A) project standing alone risk.
- B) systematic risk.
- C) contribution-to-firm risk.
- D) beta risk.

Answer: <https://biology-forums.com/index.php?topic=1848961>

Question 478

Inventories are considered fixed assets because inventory levels remain fairly constant throughout the year.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847851>

Question 479

Which of the following is a limitation of the "percent of sales method" of preparing pro forma financial statements?

- A) A firm's investment in accounts receivable is seldom related to sales volume.
- B) Not all assets and liabilities increase or decrease as a constant percent of sales.
- C) Inventory levels are seldom affected by changes in sales volume.
- D) The dividend payout ratio may change from one year to the next.

Answer: <https://biology-forums.com/index.php?topic=1849330>

Question 480

The U.S. dollar is the most frequently traded currency in foreign currency markets, accounting for over 40% of total trading.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849551>

Question 481

The one-year interest rate is 4%. The interest rate for a two-year security is 6%. According to the unbiased expectations theory, the one-year interest rate one year from now must be equal to

- A) 5.00%.
- B) 8.00%.
- C) 8.04%.
- D) 10.00%.

Answer: <https://biology-forums.com/index.php?topic=1847796>

Question 482

Preferred stock is traded in the money market, while common stock is traded in the capital market.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847744>

Question 483

A reasonable estimate of the market risk premium based on historical data and expert opinion is between 5% and 7%.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848603>

Question 484

A British-made component costs 36 U.K. pounds. A company in the United States needs to buy these components and the current indirect quote indicates that one dollar will buy .6250 pounds. Ignoring transactions costs, how much will one component cost in U.S. dollars?

- A) \$22.50
- B) \$45.94
- C) \$57.60
- D) \$72.00

Answer: <https://biology-forums.com/index.php?topic=1849556>

Question 485

When the price of oil is \$80 per barrel, the quantity of oil supplied is 74 million barrels per day. When the price of oil is \$60 per barrel, the quantity of oil supplied is 71 million barrels per day. What is the elasticity of supply of oil? (Use the midpoint method.)

Answer: <https://biology-forums.com/index.php?topic=1850206>

Question 486

A project's equivalent annual annuity (EAA) is the annuity cash flow that yields the same present value as the project's NPV.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848815>

Question 487

Discuss five limitations to ratio analysis.

Answer: <https://biology-forums.com/index.php?topic=1848055>

Question 488

Bill wants to buy a new boat in 7 years. He expects the new boat will cost \$28,000. Bill has \$18,000 in an investment account today. What rate of return must Bill earn on his investments to be able to buy the boat on time?

Answer: <https://biology-forums.com/index.php?topic=1848094>

Question 489

What is the present value of an annuity of \$120 received at the end of each year for 11 years? Assume a discount rate of 7%. The first payment will be received one year from today (round to nearest \$1).

- A) \$250

- B) \$400
- C) \$570
- D) \$900

Answer: <https://biology-forums.com/index.php?topic=1848133>

Question 490

Cash flows is the most relevant variable to measure the returns on debt instruments, while GAAP net income is the most relevant variable to measure the returns on common stock.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848201>

Question 491

In the EOQ model, the carrying cost on inventory should include the required rate of an investment in inventory.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849763>

Question 492

Mix Sweet Shop bakes and sells pies. Mix has annual fixed costs of \$880,000 and a variable cost per pie of \$7.50. Each pie sells for \$15.50 each. The firm expects to sell 500,000 pies annually. What is the break-even point in pies?

- A) 190,440
- B) 280,000
- C) 200,000
- D) 110,000

Answer: <https://biology-forums.com/index.php?topic=1849018>

Question 493

AFB, Inc. requires an investment in equipment of \$600,000 to replace existing equipment. The existing equipment will produce after-tax salvage value of \$70,000. Net working capital requirements are increased by \$50,000. What is the total cash outflow at time zero?

- A) \$720,000
- B) \$650,000
- C) \$530,000
- D) \$580,000

Answer: <https://biology-forums.com/index.php?topic=1848906>

Question 494

If we ignore bankruptcy and agency costs then the optimal capital structure for a firm under the moderate view would be 100% debt.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849084>

Question 495

The investment banker does NOT underwrite the securities to be issued in which of the following?

- A) initial public offering
- B) primary market transaction
- C) firm commitment
- D) best efforts

Answer: <https://biology-forums.com/index.php?topic=1847754>

Question 496

An income statement reports a firm's cumulative revenues and expenses from the inception of the firm through the income statement date.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847813>

Question 497

Your friend Ricky took a finance class and learned about the risk-return trade-off. Wanting a high return, Ricky invested in a risky, start-up technology company. A year later the company went bankrupt and Ricky lost his entire investment. Ricky is furious with his finance professor for misleading him, claiming he was taught that higher return goes with higher risk. Explain how Ricky misinterpreted the risk-return trade-off.

Answer: <https://biology-forums.com/index.php?topic=1847615>

Question 498

Common stock does not mature.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848500>

Question 499

Nick can purchase each milkshake for \$2. For the first milkshake purchased Nick is willing to pay \$4, for the second milkshake \$3, for the third milkshake \$2 and for the fourth milkshake \$1. What is the value of Nick's consumer surplus for the milkshakes he buys?

- A) \$2
- B) \$9
- C) \$3
- D) \$10

Answer: <https://biology-forums.com/index.php?topic=1850219>

Question 500

If a project's internal rate of return is greater than the project's required return, then the project's profitability index will be greater than one.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848715>

Question 501

A group of investment bankers organized to distribute large securities issues is known as a syndicate.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847736>

Question 502

If goods are complements, then their

- A) cross elasticities are positive.
- B) income elasticities are positive.
- C) income elasticities are negative.
- D) cross elasticities are negative.

Answer: <https://biology-forums.com/index.php?topic=1850190>

Question 503

Given the following information on S & G Inc.'s capital structure, compute the company's weighted average cost of capital.

Type of Capital Percent of Capital Structure Before-Tax Component Cost

Bonds 40% 7.5%

Preferred Stock 5% 11%

Common Stock (Internal Only) 55% 15%

The company's marginal tax rate is 40%.

- A) 13.3%
- B) 7.1%
- C) 10.6%
- D) 10%

Answer: <https://biology-forums.com/index.php?topic=1848679>

Question 504

Balon Plastics, Inc. is financed entirely with 3 million shares of common stock selling for \$20 a share. Capital of \$4 million is needed for this year's capital budget. Additional funds can be raised with new stock (ignore dilution) or with 13 percent 10-year bonds. The firm's tax rate is 40 percent.

a. Calculate the financing plan's EBIT indifference point.

b. The expected level of EBIT is \$10,320,000 with a standard deviation of \$2,000,000. What is the probability that EBIT will be above the indifference point?

c. Does the "indifference point" calculated in question (a) above truly represent a point where stockholders are indifferent between stock and debt financing? Explain your answer.

Answer: <https://biology-forums.com/index.php?topic=1849110>

Question 505

Long-term bonds have greater interest rate risk than shorter-term bonds.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848439>

Question 506

You charged \$1,000 on your credit card for Christmas presents. Your credit card company charges you 26% annual interest, compounded monthly. If you make the minimum payments of \$25 per month, how long will it take (to the nearest month) to pay off your balance?

- A) 94 months
- B) 79 months
- C) 54 months
- D) 40 months

Answer: <https://biology-forums.com/index.php?topic=1848117>

Question 507

Because fixed costs do not vary with a firm's revenues, firms with high levels of fixed cost enjoy lower levels of operating risk because their costs are more certain, making budgeting easier.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849044>

Question 508

Reducing the probability of bankruptcy is a benefit of diversification.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848958>

Question 509

The initial outlay includes the immediate cash outflow necessary to purchase the asset and put it in operating order.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848876>

Question 510

When evaluating an investment project, which of the following best describes the financial information needed by the decision maker?

- A) after-tax accounting profits
- B) after-tax incremental cash flows to the company as a whole
- C) incremental cash flows before taxes so the decision will not be biased by a tax code that may change in the future
- D) pre-tax accounting profits adjusted for any accounting method changes

Answer: <https://biology-forums.com/index.php?topic=1847597>

Question 511

A company collects 25% of its sales during the month of sale, 65% one month after the sale, and 10% two months after the sale. The company expects sales of \$50,000 in August, \$80,000 in September, \$90,000 in October, and \$60,000 in November. How much money is expected to be collected in October?

- A) \$90,000
- B) \$79,500
- C) \$55,000
- D) \$22,500

Answer: <https://biology-forums.com/index.php?topic=1849367>

Question 512

The graph of two variables, x and y, is a horizontal line. This result indicates that x and y are

- A) positively related.
- B) negatively related.
- C) not related.
- D) falsely related.

Answer: <https://biology-forums.com/index.php?topic=1849853>

Question 513

An income statement reports the firm's revenues and expenses for a specific period of time such as one year.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847857>

Question 514

In general, a project's free cash flows will fall into one of three categories: (1) incremental costs, (2) sunk costs, and (3) opportunity costs.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848890>

Question 515

If bankruptcy costs and/or shareholder under diversification are an issue, what measure of risk is relevant when evaluating project risk in capital budgeting?

- A) total project risk
- B) contribution-to-firm risk
- C) systematic risk
- D) capital rationing risk

Answer: <https://biology-forums.com/index.php?topic=1848962>

Question 516

Interest Rate Parity theory states that interest rates must be the same in all countries using floating exchange rates or else international markets will not be in equilibrium.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849579>

Question 517

In evaluating a relationship between x and y, ceteris paribus means other variables

- A) are not relevant to x and y.
- B) move in opposite directions to x and y.
- C) are not changing while x and y change.
- D) move in the same direction as x and y.

Answer: <https://biology-forums.com/index.php?topic=1849873>

Question 518

Which of the following is NOT true regarding common stock?

- A) Dividends, unlike interest payments, are not tax deductible.
- B) Common stock, unlike bond principal, does not mature.
- C) Common stockholders are owners of the firm, whereas bondholders are creditors.
- D) Dividend payments, like interest payments, are fixed.

Answer: <https://biology-forums.com/index.php?topic=1848510>

Question 519

A \$10 per-unit tax on cell phones raises the equilibrium price paid by consumers by \$5. Before the tax, 5,000 cell phones were sold per year. The revenue from the tax is

- A) zero.
- B) positive but less than \$50,000 per year.
- C) \$50,000 per year.
- D) more than \$50,000 per year.

Answer: <https://biology-forums.com/index.php?topic=1850350>

Question 520

Among the sources of economic inefficiency are all of the following EXCEPT

- A) price regulations.
- B) rapid technological change.
- C) monopoly.
- D) taxes and subsidies.

Answer: <https://biology-forums.com/index.php?topic=1850270>

Question 521

The investment banking business is dominated by a few very large, stand-alone investment banking firms.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847742>

Question 522

The payback period may be more appropriate to use for companies experiencing capital rationing.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848800>

Question 523

Assume that liquid funds can be invested to yield 4.5 percent. If annual remittance checks total \$2 billion, what is it worth for the firm to reduce float by 1 day?

- A) \$388,349
- B) \$246,575
- C) \$257,534
- D) \$24,658

Answer: <https://biology-forums.com/index.php?topic=1849681>

Question 524

The Smith Corporation is a maker of fine stereo components and presently has finished goods inventories of \$800,000. They need a short-term bank loan of \$400,000 for three months. The bank has proposed two different financing arrangements. The first is a floating lien arrangement at a rate of 22 percent. The second proposal is for a terminal warehouse arrangement at 11 percent. Under the latter proposal, Smith will pay \$1,000 a month plus round trip shipping expense of \$6,000. Which source of credit should be selected by the Smith Corporation? Explain.

Answer: <https://biology-forums.com/index.php?topic=1849501>

Question 525

An investor who requires an 18% percent return for a stock that pays no dividends and requires a 12% return for a stock that pays its entire return from dividends may be following the bird-in-the-hand dividend theory.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849147>

Question 526

The optimal capital structure occurs when operating leverage equals financial leverage.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849069>

Question 527

What three actions can a firm take to minimize its net working capital?

Answer: <https://biology-forums.com/index.php?topic=1849441>

Question 528

Smith Manufacturing Inc. expects the following results in year one of a new project:

Revenue\$400,000

Cash Expenses150,000

Depreciation90,000

EBIT\$160,000

Taxes48,000

Net Income\$112,000

The annual change in operating cash flow is equal to

- A) \$298,000.
- B) \$202,000.
- C) \$160,000.
- D) \$250,000.

Answer: <https://biology-forums.com/index.php?topic=1848900>

Question 529

All of the following are potential disadvantages of short-term debt EXCEPT

- A) short-term debt must be paid back more quickly than long-term debt.
- B) uncertainty of interest costs because short-term debt must be replaced often.
- C) a greater risk of illiquidity than long-term debt.
- D) short-term debt generally has a higher interest cost than long-term debt.

Answer: <https://biology-forums.com/index.php?topic=1849395>

Question 530

The CEO of JLI Corp. decided to expand into a new market in 2010. At the end of 2010, JLI's stock price had decreased 5% since the beginning of the year. Which of the following statements is MOST correct?

- A) The CEO made a poor decision to expand because the stock price decreased during the year.
B) The CEO made a poor decision to expand because the company's profits for the year obviously decreased, causing the drop in stock price.
C) The CEO's decision may have been optimal, keeping the stock price from falling more than 5% for the year.
D) CEO decisions are irrelevant because the efficient market determines the value of a company's stock.

Answer: <https://biology-forums.com/index.php?topic=1847598>

Question 531

Individuals, corporations, and governments can be either savings deficit units or savings surplus units.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847672>

Question 532

What information does a firm's balance sheet provide to the viewing public?

- A) a report of investments made and their cost for a specific period of time
B) a complete listing of all of a firm's cash receipts and cash expenditures for a defined period of time
C) a report of revenues and expenses for a defined period of time
D) an itemization of all of a firm's assets, liabilities, and equity as of the balance sheet date

Answer: <https://biology-forums.com/index.php?topic=1847874>

Question 533

What assumptions underlie the EOQ formula?

Answer: <https://biology-forums.com/index.php?topic=1849789>

Question 534

All of the following are likely to result in the use of less debt in a company's capital structure EXCEPT

- A) desire to maintain financial flexibility.
B) desire to maintain a high credit rating.
C) insufficient internal funds.
D) a decrease in a company's marginal tax rate.

Answer: <https://biology-forums.com/index.php?topic=1849047>

Question 535

Advantages of the payback period include that it is easy to calculate, easy to understand, and that it is based on cash flows rather than on accounting profits.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848708>

Question 536

The value of a bond investment, which provides fixed interest payments, will increase when discounted at an 8% rate rather than at an 11% rate.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848107>

Question 537

You are going to pay \$100 into an account at the beginning of each of the next 40 years. At the beginning of the 41st year you buy a 30 year annuity whose first payment comes at the end of the 41st year (the accounts earn 12%). How much will you receive at the end of the 41st year (i.e., the first annuity payment). Round to nearest \$100.

- A) \$93,000
B) \$7,800
C) \$11,400
D) \$10,700

Answer: <https://biology-forums.com/index.php?topic=1848136>

Question 538

The cost of producing one more pizza is the

- A) price.
B) marginal benefit.
C) marginal cost.
D) producer surplus.

Answer: <https://biology-forums.com/index.php?topic=1850243>

Question 539

Suppose interest rates have been at historically low levels the past two years. A reasonable strategy for bond investors during this time period would be to

- A) invest in long-term bonds to reduce interest rate risk.
- B) invest in short-term bonds to reduce interest rate risk.
- C) buy only junk bonds which have higher interest rates.
- D) invest in long-term bonds to lock in a bond position for when interest rates increase in the future.

Answer: <https://biology-forums.com/index.php?topic=1848451>

Question 540

Under majority voting, a majority (>50%) shareholder will just be able to elect a simple majority of the board of directors.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848504>

Question 541

Which of the following is FALSE concerning bonds?

- A) The indenture spells out the obligations of the bond issuer.
- B) Mortgage bonds are secured by assets such as real estate.
- C) Debentures are secured by assets other than real estate.
- D) Subordinated debentures are riskier than unsubordinated debentures.

Answer: <https://biology-forums.com/index.php?topic=1848356>

Question 542

Which of the following would be considered a fixed cost in a manufacturing setting?

- A) depreciation
- B) direct labor
- C) sales commissions
- D) direct materials

Answer: <https://biology-forums.com/index.php?topic=1849016>

Question 543

If the price of a pizza increases and the demand curve for pizza does not shift, then the consumer surplus from pizza will _____.

- A) increase
- B) decrease
- C) equal the producer surplus if the market produces the efficient quantity of pizza
- D) remain the same

Answer: <https://biology-forums.com/index.php?topic=1850216>

Question 544

The law of one price suggests that all of the following will have the same price in different countries EXCEPT

- A) oil.
- B) grain.
- C) fresh vegetables.
- D) silver.

Answer: <https://biology-forums.com/index.php?topic=1849591>

Question 545

A secured loan should have a higher interest rate because the lender has less risk and therefore values the loan more highly.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849450>

Question 546

The government raises the sales tax on shirts. The tax is imposed on sellers. As a result, the _____.

- A) supply curve of shirts shifts leftward
- B) supply curve of shirts shifts rightward
- C) demand curve for shirts becomes vertical
- D) demand curve for shirts becomes horizontal

Answer: <https://biology-forums.com/index.php?topic=1850328>

Question 547

If you want to have \$5,000 in 10 years, how much money must you put in a savings account today? (Assume that the savings account pays 4% and it is compounded daily; round to the nearest \$1).

- A) \$3,352
- B) \$3,370
- C) \$4,102
- D) \$4,207

Answer: <https://biology-forums.com/index.php?topic=1848183>

Question 548

What restrictions are typically included in an indenture of bonds in order to protect the bondholder?

Answer: <https://biology-forums.com/index.php?topic=1848360>

Question 549

A corporation that increases its net profit margin will need less discretionary financing, other things being equal.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849269>

Question 550

An example of an annuity is the interest received from bonds.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848105>

Question 551

Congratulations! You are the proud winner of the multi-state Sour Ball Lottery. You are to receive \$2,000,000 at the end of each year for the next 20 years. While the Lottery Commission refers to this as a \$40,000,000 jackpot, if you choose the "cash option" they will give you much less than that; you can receive a lump sum payment today equal to the present value of the ordinary annuity instead of the 20 annual payments. If the discount rate that the Lottery Commission uses to determine the lump sum payoff is 7%, what is your payoff if you select the cash option?

- A) \$26,945,332
- B) \$39,707,503
- C) \$42,977,401
- D) \$21,188,028

Answer: <https://biology-forums.com/index.php?topic=1848143>

Question 552

Economic value added is calculated by taking (net income less the cost of all capital) times total assets.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847961>

Question 553

The production possibilities frontier is the boundary between those combination of goods and services that can be

- A) produced and those that can be consumed.
- B) consumed domestically and those that can be consumed by foreigners.
- C) produced and those that cannot be produced.
- D) consumed and those that cannot be produced.

Answer: <https://biology-forums.com/index.php?topic=1849894>

Question 554

A firm's dividend policy provides information pertaining to the firm's payout ratio and its stability.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849140>

Question 555

The present value of a deferred annuity (e.g., an annuity that starts 10 years from today) can be calculated in two steps: (1) calculate the future value of the annuity, and (2) calculate the present value of the amount determined in step (1).

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848103>

Question 556

While producing on the production possibilities frontier, if additional units of a good could be produced at a constant opportunity cost, the production possibilities frontier would be

- A) bowed outward.
- B) bowed inward.
- C) positively sloped.
- D) a straight line.

Answer: <https://biology-forums.com/index.php?topic=1849918>

Question 557

Shareholders may prefer a share repurchase program to dividends because dividends are subject to taxation and increasing value per share due to repurchase programs is tax deferred.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849251>

Question 558

The initial outlay of a project may be reduced by the after-tax salvage value of replaced equipment.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848874>

Question 559

One of the disadvantages of the payback method is that it ignores time value of money.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848723>

Question 560

What is the yield to maturity of a corporate bond with 13 years to maturity, a coupon rate of 8% per year, a \$1,000 par value, and a current market price of \$1,250? Assume semiannual coupon payments.

- A) 4.2%
- B) 4.7%
- C) 6.0%
- D) 5.3%

Answer: <https://biology-forums.com/index.php?topic=1848425>

Question 561

NPV may be calculated on an Excel spreadsheet simply by entering the project's free cash flows into Excel's NPV function.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848750>

Question 562

In the context of managing working capital, the hedging principle refers to which of the following?

- A) speculation regarding the direction of short-term interest rates
- B) the usage of interest rate swaps
- C) matching the maturity of the source of financing to the cash flow generating characteristics of the asset being financed
- D) protecting the firm against the risk of rising interest rates

Answer: <https://biology-forums.com/index.php?topic=1849430>

Question 563

Sentry Manufacturing paid a dividend yesterday of \$5 per share ($D_0 = \5). The dividend is expected to grow at a constant rate of 8% per year. The price of Sentry Manufacturing's stock today is \$29 per share. If Sentry Manufacturing decides to issue new common stock, flotation costs will equal \$2.50 per share. Sentry Manufacturing's marginal tax rate is 35%. Based on the above information, the cost of retained earnings is

- A) 28.38%.
- B) 24.12%.
- C) 26.62%.
- D) 31.40%.

Answer: <https://biology-forums.com/index.php?topic=1848622>

Question 564

Discretionary financing needed can be positive or zero, but not negative.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849297>

Question 565

Capital structure is the mix of the long-term sources of funds used by the firm.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849087>

Question 566

Jane produces only corn and cloth. Taking account of her preferences for corn and cloth

- A) makes her production possibilities frontier straighter.
- B) makes her production possibilities frontier steeper.
- C) makes her production possibilities frontier flatter.
- D) does not affect her production possibilities frontier.

Answer: <https://biology-forums.com/index.php?topic=1849898>

Question 567

The disadvantage of the IRR method is that

- A) the IRR deals with cash flows.
- B) the IRR gives equal regard to all returns within a project's life.
- C) the IRR will always give the same project accept/reject decision as the NPV.
- D) the IRR requires long, detailed cash flow forecasts.

Answer: <https://biology-forums.com/index.php?topic=1848774>

Question 568

An investor is considering two equally risky investments. Investment A is expected to return \$1,000 per year for the next 5 years. Investment B is expected to return \$6,000 at the end of 5 years. Which of the following statements is MOST correct if both investments A and B have the same cost?

- A) A risk averse investor will select investment B because it is expected to provide the most cash (\$6,000 > \$5,000).
- B) A risk averse investor will select investment A because it provides cash earlier than investment B.
- C) The investor will select investment A only if the cost is less than \$1,000.
- D) The investor may select investment A or investment B depending on the opportunity cost of money.

Answer: <https://biology-forums.com/index.php?topic=1847595>

Question 569

Claire and Dag are farmers who produce beef and corn. In a year, Claire can produce 16 tons of beef or 40 bushels of corn, while Dag can produce 5 tons of beef or 25 bushels of corn. The opportunity cost of producing a ton of beef is

- A) 10 bushels of corn for Dag and 8 bushels of corn for Claire.
- B) 5 bushels of corn for Dag and 2.5 bushels of corn for Claire.
- C) 20 bushels of corn for Dag and 50 bushels of corn for Claire.
- D) 36.5 days for Dag and 45.6 days for Claire.

Answer: <https://biology-forums.com/index.php?topic=1849960>

Question 570

The purpose of finished goods inventory is to uncouple the production and sales functions so that it is not necessary to produce the goods before a sale can occur.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849768>

Question 571

What is the name given to the equation that financial managers use to measure an investor's required rate of return?

- A) the standard deviation
- B) the capital asset pricing model
- C) the coefficient of variation
- D) the MIRR

Answer: <https://biology-forums.com/index.php?topic=1848311>

Question 572

A company with national sales but only one large manufacturing operation and one administrative headquarters located in the same large northeastern

city would most likely use which of the following techniques for cash management?

- A) lockbox system
- B) zero balance accounts
- C) payable-through drafts
- D) bankers' acceptances

Answer: <https://biology-forums.com/index.php?topic=1849676>

Question 573

In an efficient market, two investors may agree on the amount and timing of a bond's expected cash flows and also on the bond's risk level, as measured by its debt rating, and still determine two different values for the bond.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848376>

Question 574

EveningFall, Inc. pays a quarterly dividend of \$3.40 per share. Which of the following statements is most accurate concerning which shareholders will receive the dividend payment?

- A) The shareholders who own the stock on the date the dividend is declared will receive the dividend, even if they sell their stock before the dividend checks are mailed.
- B) The shareholders who are identified as owning the stock on the record date will receive the dividend, even if they sell their stock before the dividend checks are mailed.
- C) The shareholders who own the stock the day the dividend is paid will receive the dividend.
- D) All shareholders who own the stock on the record date, but sell the stock before the dividend checks are mailed, forfeit their right to receive the dividend and the money reverts back to the corporation.

Answer: <https://biology-forums.com/index.php?topic=1849217>

Question 575

The use of risk-adjusted discount rates is based on the concept that investors require a higher rate of return for more risky projects.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848949>

Question 576

Arguments against using the net present value and internal rate of return methods include that

- A) they fail to use accounting profits.
- B) they require detailed long-term forecasts of the incremental benefits and costs.
- C) they fail to consider how the investment project is to be financed.
- D) they fail to use the cash flow of the project.

Answer: <https://biology-forums.com/index.php?topic=1848764>

Question 577

One method used to monitor the collections of accounts receivable is aging.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849728>

Question 578

The goal of cash management is to hold the minimum amount of cash necessary to meet the firm's obligations in a timely manner.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849625>

Question 579

Which of the following supports the "bird-in-the-hand" dividend theory?

- A) Investors prefer dividends to capital gains because of the time value of money.
- B) Increasing a firm's dividends transfers risk and ownership from the current shareholders to new owners.
- C) Investment decisions are not influenced by dividend policy.
- D) Capital mix decisions are not influenced by dividend policy.

Answer: <https://biology-forums.com/index.php?topic=1849164>

Question 580

The producer surplus from a good is equal to the

- A) maximum amount a consumer is willing to pay for the good minus the price that actually must be paid summed over the quantity sold.

- B) actual price of the good minus the maximum amount a consumer is willing to pay for the good.
C) opportunity cost of producing the good minus its price summed over the quantity sold.
D) price of the good minus its opportunity cost of production summed over the quantity sold.

Answer: <https://biology-forums.com/index.php?topic=1850244>

Question 581

Grandview Inc. will issue new common stock to finance an expansion. The existing common stock just paid a \$1.50 dividend, and dividends are expected to grow at a constant rate 8% indefinitely. The stock sells for \$45, and flotation expenses of 5% of the selling price will be incurred on new shares. What is the cost of retained earnings for Grandview?

- A) 11.33%
B) 11.51%
C) 11.60%
D) 11.79%
E) 12.53%

Answer: <https://biology-forums.com/index.php?topic=1848641>

Question 582

The more debt a company uses to finance its assets, the lower will be its operating income due to higher interest expense.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847820>

Question 583

Commercial paper is an unsecured form of credit.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849464>

Question 584

If two companies have the same net income and the same level of risk, they must also have the same stock price or the market is not in equilibrium.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847556>

Question 585

Scarcity affects only those who are in need.

Answer: <https://biology-forums.com/index.php?topic=1849801>

Question 586

Which of the following affects the precautionary motive for holding cash?

- A) the cash flow predictability
B) the firm's access to external funds
C) both A and B
D) none of the above

Answer: <https://biology-forums.com/index.php?topic=1849665>

Question 587

Betty borrows \$60,000 at 12 percent compounded annually. The loan is to be repaid in five equal annual end-of-year installments. How much must each loan payment be?

Answer: <https://biology-forums.com/index.php?topic=1848151>

Question 588

You determine that LMN common stock has an expected return of 24%. LMN has a Beta of 1.5. The risk-free rate is 5%, and the market expected return is 15%. Which of the following is most likely to happen?

- A) You and other investors will buy up LMN stock and its price will rise.
B) You and other investors will sell LMN stock and its return will fall.
C) You and other investors will buy up LMN stock and its return will rise.
D) You and other investors will sell LMN stock and its price will fall.

Answer: <https://biology-forums.com/index.php?topic=1848306>

Question 589

Proper diversification generally results in the elimination of risk.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848237>

Question 590

Who bears the greatest risk of loss of value if a firm should fail?

- A) bondholders
- B) preferred stockholders
- C) common stockholders
- D) All of the above bear equal risk of loss.

Answer: <https://biology-forums.com/index.php?topic=1848516>

Question 591

When is it useful or sometimes necessary to compute the break-even point in terms of sales dollars rather than units of output?

Answer: <https://biology-forums.com/index.php?topic=1849029>

Question 592

When making financial decisions, managers should always look at marginal, or incremental cash flows.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847554>

Question 593

A corporate financial manager trying to maximize shareholder value

- A) is not concerned with ethics but rather with writing iron-clad contracts.
- B) can safely ignore ethics as long as no laws are broken.
- C) must behave ethically in order to stay out of jail.
- D) is concerned with ethics because unethical behavior destroys trust, and businesses cannot function without a certain degree of trust.

Answer: <https://biology-forums.com/index.php?topic=1847592>

Question 594

What are the limitations of financial statements?

Answer: <https://biology-forums.com/index.php?topic=1847923>

Question 595

The relevant risk to an investor is that portion of the variability of returns that cannot be diversified away.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848252>

Question 596

Which of the following categories of owners enjoy limited liability?

- A) all partners in a limited partnership
- B) common shareholders of a corporation
- C) in a partnership, only the general partners
- D) only B and C above

Answer: <https://biology-forums.com/index.php?topic=1847650>

Question 597

Which of the following shifts the supply curve for gasoline rightward?

- A) a situation in which the quantity demanded exceeds the quantity supplied
- B) an increase in the price of gasoline
- C) a decrease in the price of a resource used to produce gasoline, such as crude oil
- D) an increase in the demand for gas-guzzling, sport utility vehicles

Answer: <https://biology-forums.com/index.php?topic=1850040>

Question 598

Which of the following expenses associated with a project should NOT be included in a capital budgeting analysis?

- A) additional allocated fixed overhead from corporate headquarters
- B) additional maintenance expenses associated with new equipment
- C) reengineering of a production line associated with a new project
- D) training sales staff on a new product

Answer: <https://biology-forums.com/index.php?topic=1848866>

Question 599

TransSystems Inc. has a total equity of \$560,000; sales of \$2,250,000; total assets of \$995,000; and current liabilities of \$310,000. What is TransSystems Inc.'s debt ratio?

- A) 55.4%
- B) 43.7%
- C) 31.2%
- D) 66.7%

Answer: <https://biology-forums.com/index.php?topic=1848035>

Question 600

Before the first Gulf War in 1991, Kuwait had the capacity to produce a certain amount of oil from its oil wells. After the war, it found that capacity greatly diminished because the oil wells had been set on fire. Draw Kuwait's PPF before and after the war, assuming that the only two goods produced are oil and food. Further assume that setting the oil wells on fire did not affect Kuwait's ability to produce food. Explain why the PPF before the war is different from the PPF after the war.

Answer: <https://biology-forums.com/index.php?topic=1850015>

Question 601

In the search for profits, U.S. corporations have been forced to look beyond our country's borders. All of the following contributed to the movement EXCEPT

- A) trade protectionism.
- B) collapse of communism.
- C) acceptance of the free market system in Third World countries.
- D) information technology revolution.

Answer: <https://biology-forums.com/index.php?topic=1847667>

Question 602

What is diversifying among different kinds of assets known as?

- A) portfolio funding
- B) capital asset classification
- C) asset allocation
- D) multi-diversification

Answer: <https://biology-forums.com/index.php?topic=1848278>

Question 603

One of the problems associated with maximization of total current stock value is that it ignores the timing of a project's return.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847565>

Question 604

A Treasury bill is a near-cash asset.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849650>

Question 605

Today is your 21st birthday and your bank account balance is \$25,000. Your account is earning 6.5% interest compounded quarterly. How much will be in the account on your 50th birthday?

- A) \$159,795
- B) \$162,183
- C) \$163,832
- D) \$164,631

Answer: <https://biology-forums.com/index.php?topic=1848176>

Question 606

Break-even analysis assumes that a multiproduct firm maintains a constant production and sales mix.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849004>

Question 607

The "perfect storm" of factors that contributed to the economic crisis of 2007 include

- A) increases in the minimum wage rate, unchecked illegal immigration, and state government deficits.
- B) financial deregulation, unchecked commodity prices, floating currency exchange rates.
- C) poorly chosen mortgage loans, falling housing prices, and a contracting economy.
- D) agency costs, inefficient markets, and perfect capital markets.

Answer: <https://biology-forums.com/index.php?topic=1847610>

Question 608

The residual theory of dividends connects a firm's dividend policy and its level of capital investments.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849137>

Question 609

The independence hypothesis suggests that the cost of equity decreases as financial leverage increases.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849083>

Question 610

Commercial centers for foreign exchange exist only in New York and London in order to make it possible for arbitrage to work.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849544>

Question 611

DYI Construction Co. is considering a new inventory system that will cost \$750,000. The system is expected to generate positive cash flows over the next four years in the amounts of \$350,000 in year one, \$325,000 in year two, \$150,000 in year three, and \$180,000 in year four. DYI's required rate of return is 8%. What is the payback period of this project?

- A) 4.00 years
- B) 3.09 years
- C) 2.91 years
- D) 2.50 years

Answer: <https://biology-forums.com/index.php?topic=1848759>

Question 612

Discretionary financing needed must be obtained through additional borrowing because additional equity measured by the increase in retained earnings has already been deducted.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849274>

Question 613

Earnings before taxes, or taxable income, is equal to operating income minus financing costs.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847819>

Question 614

An example of a Eurobond is a bond issued in Asia by a U.S. Corporation with interest and principal payments made in U.S. dollars.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848321>

Question 615

Lock-box arrangements yield benefits for all companies regardless of the size of sales or customer remittance checks.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849640>

Question 616

The quantity of shoes produced is measured along the horizontal axis of a PPF and the quantity of shirts is measured along the vertical axis. As you move down toward the right along the PPF, the marginal cost of

- A) shoes decreases.
- B) shoes increases.
- C) shirts increases.
- D) shoes and shirts is equal at the midpoint between the vertical and horizontal axis.

Answer: <https://biology-forums.com/index.php?topic=184964>

Question 617

Mountain Retreat and Resort is undergoing a major expansion. The expansion will be financed by issuing new 15-year, \$1,000 par, 9% annual coupon bonds. The market price of the bonds is \$1,070 each. The firm's flotation expense on the new bonds will be \$50 per bond. The firm's marginal tax rate is 35%. What is the relevant cost of the new bonds for capital budgeting purposes?

- A) 5.14%
- B) 5.69%
- C) 8.45%
- D) 4.82%

Answer: <https://biology-forums.com/index.php?topic=1848699>

Question 618

Three of the most common options that can add value to a capital budgeting project are the option to delay the project, the option to expand the project, and the option to abandon the project.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848937>

Question 619

Due to a number of lawsuits related to toxic wastes, a major chemical company has recently experienced a market revaluation. The firm has bonds outstanding that were issued 8 years ago at their par value of \$1,000. These bonds have 12 years to maturity and a coupon rate of 6 percent, with interest paid semiannually. The required return on these bonds has increased to 14 percent. What is the current value of one of these bonds?

Answer: <https://biology-forums.com/index.php?topic=1848402>

Question 620

Compounding effectively raises the cost of short-term credit.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849442>

Question 621

A typical decision rule used in simulation is to accept the project if the probability is sufficiently high that the net present value is positive.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848957>

Question 622

The net present value of a project will increase as the required rate of return is decreased (assume only one sign reversal).

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848721>

Question 623

Managing a firm's cash outflows through use of a "zero balance account" system offers all but which of the following benefits?

- A) centralized control over disbursements
- B) reduction of management time spent on superficial cash management activities
- C) higher rate of return on invested funds
- D) reduction of excess balances in outlying accounts

Answer: <https://biology-forums.com/index.php?topic=1849692>

Question 624

The just-in-time inventory control system is just a new approach to the EOQ model which tries to produce the lowest average inventory possible.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849765>

Question 625

You discover an antique in your attic that you purchased at an estate sale 10 years ago for \$400. You auction it on eBay and receive \$8,000 for your item. What annual rate of return did you earn?

- A) 200.00%
- B) 34.93%
- C) 30.47%
- D) 20.00%

Answer: <https://biology-forums.com/index.php?topic=1848192>

Question 626

If the sales growth rate is greater than zero, then the discretionary financing needed will also be greater than zero.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849273>

Question 627

Accounts payable and accrued expenses are known as discretionary sources of financing.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849284>

Question 628

The correct order of dividend process dates is

- A) date of record, declaration date, ex-dividend date, payment date.
- B) declaration date, date of record, ex-dividend date, payment date.
- C) ex-dividend date, date of record, declaration date, payment date.
- D) declaration date, ex-dividend date, date of record, payment date.

Answer: <https://biology-forums.com/index.php?topic=1849219>

Question 629

Which of the following is the most important goal that a corporation should strive for?

- A) maximize current profits
- B) maximize market share
- C) maximize revenue
- D) maximize shareholder wealth

Answer: <https://biology-forums.com/index.php?topic=1847551>

Question 630

In the basic EOQ model, the optimal inventory level is the point at which

- A) total cost is minimized.
- B) total revenue is maximized.
- C) carrying costs are minimized.
- D) ordering costs are minimized.

Answer: <https://biology-forums.com/index.php?topic=1849772>

Question 631

A local restaurant owner is considering expanding into another rural area. The expansion project will be financed through a line of credit with City Bank. The administrative costs of obtaining the line of credit are \$500, and the interest payments are expected to be \$1,000 per month. The new restaurant will occupy an existing building that can be rented for \$2,500 per month. The incremental cash flows for the new restaurant include

- A) \$500 administrative costs, \$1,000 per month interest payments, \$2,500 per month rent.
- B) \$500 administrative costs, \$2,500 per month rent.
- C) \$1,000 per month interest payments, \$2,500 per month rent.
- D) \$2,500 per month rent.

Answer: <https://biology-forums.com/index.php?topic=1848861>

Question 632

A company decreases the risk of insolvency by financing long-term assets with short-term debt.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849383>

Question 633

The owners of a corporation enjoy limited liability.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847636>

Question 634

An increase in the number of producers of gruel _____ the supply of gruel and shifts the supply curve of gruel _____.

- A) increases; rightward
- B) increases; leftward
- C) decreases; rightward
- D) decreases; leftward

Answer: <https://biology-forums.com/index.php?topic=1850064>

Question 635

Dryden, Corp. has 500,000 shares of common stock outstanding, a P/E ratio of 11, and \$900,000 earnings available for common stockholders. The board of directors has just voted a 5:2 stock split.

- a. If you had 100 shares of stock before the split, how many shares will you have after the split?
- b. What was the total value of your investment in Dryden stock before the split?
- c. What should be the total value of your investment in Dryden stock after the split?
- d. In view of your answers to (b) and (c) above, why would a firm's management want to have a stock split?

Answer: <https://biology-forums.com/index.php?topic=1849244>

Question 636

A firm's capital structure and its target capital structure proportions are important determinants of a firm's weighted average cost of capital. Explain.

Answer: <https://biology-forums.com/index.php?topic=1848686>

Question 637

RBW Corp. has cash of \$48,000; short-term notes payable of \$35,000; accounts receivable of \$100,000; accounts payable of \$120,000; inventories of \$200,000; and accruals of \$90,000. What is RBW's current ratio?

- A) 1.57
- B) 2.71
- C) 1.42
- D) 0.64

Answer: <https://biology-forums.com/index.php?topic=1848032>

Question 638

The cost of debt capital is obtained by substituting the net proceeds per bond for the bond price in the bond valuation equation and solving for the required return.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848598>

Question 639

An investor buys a 20-year Bbb-rated corporate bond with a nominal annual rate of return of 10%. The average inflation rate is expected to be 2%. The default risk premium is expected to be 5% and the maturity premium is 4%. Calculate the real rate of interest.

Answer: <https://biology-forums.com/index.php?topic=1847806>

Question 640

The four basic determinants of business risk include all of the following EXCEPT

- A) the stability of the domestic economy.
- B) the level of fixed cost used in the company's production process.
- C) sensitivity to the business cycle.
- D) competitive pressures in the firm's industry.

Answer: <https://biology-forums.com/index.php?topic=1848983>

Question 641

Prices of securities that are traded in the Over-the-Counter Markets are determined by

- A) the Federal Trade Commission.
- B) a continuous modified auction process.
- C) the buyers of these securities.
- D) a "bid" and "ask" negotiation process of broker-dealers of these securities.

Answer: <https://biology-forums.com/index.php?topic=1847724>

Question 642

Total asset turnover is equal to accounts receivable turnover plus inventory turnover plus fixed asset turnover.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847946>

Question 643

Notes payable and bonds payable are spontaneous liabilities.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849277>

Question 644

Investors expect to receive the highest returns from government-issued securities because the government will not default on securities that it has issued.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847776>

Question 645

The residual dividend theory is based on the observation that flotation costs make the cost of new common stock significantly higher than the cost of retained earnings.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849134>

Question 646

All of the following securities are sold in money markets EXCEPT

- A) common stock.
- B) commercial paper.
- C) 3-month U.S. Treasury bills.
- D) 6-month certificates of deposit.

Answer: <https://biology-forums.com/index.php?topic=1847708>

Question 647

XYZ Corporation has a P/E ratio of 20 and EFG Corporation has a P/E ratio of 10. It is likely that

- A) XYZ's earnings per share are twice the earnings per share of EFG.
- B) investors expect XYZ's earnings to grow faster than EFG's earnings.
- C) investors believe that for the same level of earnings growth, XYZ is a higher risk company.
- D) investors believe XYZ stock is overvalued.

Answer: <https://biology-forums.com/index.php?topic=1848001>

Question 648

If the interest rate is positive, a six-year ordinary annuity of \$500 per year must have a present value over \$3,000.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848110>

Question 649

Mountain Snow Sports, Inc. is trying to determine the optimal order quantity for snow boards for the next twelve months. Annual sales are expected to be 1,000,000 units at a retail price of \$400 each. The cost of carrying snow boards is \$80 per year. Studies show that it costs Mountain Snow \$250 to prepare and receive an order. What is the EOQ?

- A) 2,750
- B) 2,500
- C) 2,000
- D) 1,850

Answer: <https://biology-forums.com/index.php?topic=1849782>

Question 650

If the future value of annuity A is greater than the future value of annuity B, then the present value of annuity A must also be greater than the present value of annuity B.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848096>

Question 651

The characteristic line for any well-diversified portfolio is horizontal.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848253>

Question 652

When resources are assigned to inappropriate tasks, that is, tasks for which they are not the best match, the result will be producing at a point

- A) where the slope of the PPF is positive.
- B) where the slope of the PPF is zero.
- C) inside the PPF.
- D) outside the PPF.

Answer: <https://biology-forums.com/index.php?topic=1849903>

Question 653

Bryant Inc. just issued \$1,000 par 30-year bonds. The bonds sold for \$1,107.20 and pay interest semiannually. Investors require a rate of 7.75% on the bonds. What is the bonds' coupon rate?

- A) 9.333%
- B) 7.750%
- C) 4.125%
- D) 8.675%

Answer: <https://biology-forums.com/index.php?topic=1848392>

Question 654

AFB, Inc. and DAS, Inc. both paid a \$2 per share dividend last year. This year, AFB, Inc. announces an increase to \$3 per share while DAS, Inc. announces an increase to \$2.50 per share. After the announcement, the price of DAS, Inc. stock increases and the price of AFB, Inc.'s stock decreases. Which of the following best explains this situation?

- A) The stock market is irrational.
- B) AFB, Inc. had higher agency costs than DAS, Inc. prior to the announcement.
- C) Both companies need to raise capital for positive NPV projects, and flotation costs are high.
- D) Capital markets are perfect.

Answer: <https://biology-forums.com/index.php?topic=1849182>

Question 655

When a company sells a piece of equipment or land, any gain (sales price less the book value of the asset or residual value) is thought to be a capital gain.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847916>

Question 656

As a rule, any cash flows that are not affected by the accept/reject criterion should not be included in capital-budgeting analysis.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848851>

Question 657

If the demand curve for a good is a downward sloping straight line, the demand for the good will be more price elastic the higher is the

- A) price of the good.
- B) price of complements.
- C) income of consumers.
- D) income elasticity of demand for that good.

Answer: <https://biology-forums.com/index.php?topic=1850141>

Question 658

When Firm X makes the decision to pay dividends, they also make the decision not to reinvest the cash in the firm.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849119>

Question 659

If provided the nominal rate of interest (r) of 7.4% and the anticipated rate of inflation (i) of 4.5%, what is the real rate of interest (R)?

Answer: <https://biology-forums.com/index.php?topic=1847809>

Question 660

ABC Corp. has estimated the following income statement for its next fiscal year.

Sales \$20,000,000

Variable costs 6,000,000

Revenue before fixed costs 14,000,000

Fixed costs 9,000,000

EBIT 5,000,000

Interest expense 900,000

Earnings before taxes 4,100,000

Taxes (35%) 1,435,000

Net income \$2,665,000

a. What is the break-even point in sales dollars for the firm?

b. If the average unit cost is \$20, what is the break-even point in units?

Answer: <https://biology-forums.com/index.php?topic=1849021>

Question 661

A floating lien, chattel mortgage, or terminal warehouse receipt have which of the following in common?

A) They all pledge accounts receivables as security.

B) They have nothing in common.

C) They are all unsecured forms of financing.

D) They all use inventory to secure a loan.

Answer: <https://biology-forums.com/index.php?topic=1849493>

Question 662

You decide to borrow \$250,000 to build a new home. The bank charges an interest rate of 8% compounded monthly. If you pay back the loan over 30 years, what will your monthly payments be (rounded to the nearest dollar)?

A) \$1,123

B) \$1,237

C) \$1,687

D) \$1,834

Answer: <https://biology-forums.com/index.php?topic=1848118>

Question 663

Three types of arbitrage are simple arbitrage, rectangular arbitrage, and covered-expense arbitrage.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849548>

Question 664

In a replacement decision, the initial outlay is equal to the cost of the new asset less the reduction in depreciation from elimination of the old asset.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848892>

Question 665

Butler Automotive developed a new diagnostic testing procedure that is expected to increase sales by \$10,000 per month. As more drivers bring in their vehicles, Butler expects to also do more oil changes and brake repairs. As a result, inventory levels of oil and brake parts must be increased by \$5,000. Revenues from oil changes and brake jobs are expected to increase by \$4,000 per month. An example of a synergistic effect from the new diagnostic testing procedure is the

A) increase in inventory levels of oil and brake parts.

B) increase in revenue of \$10,000 per month for the diagnostic testing.

C) increase in revenues from oil changes and brake jobs of \$4,000 per month.

D) increase in all activities totaling \$19,000 per month.

Answer: <https://biology-forums.com/index.php?topic=1848862>

Question 666

In an international trade contract involving one buyer and one seller, both parties may be exposed to exchange rate risk if the contract is denominated in a third currency.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849600>

Question 667

Phillips Enterprises Inc. is expected to pay a dividend of \$2.60 next year. Dividends are expected to grow at a constant rate of 8% per year, and the stock price is currently \$20.00. New stock can be sold at this price subject to flotation costs of 15%. The company's marginal tax rate is 35%. Compute the cost of internal equity (retained earnings) and the cost of external equity (new common stock), respectively.

- A) 0, 21.00%
- B) 8.00%, 23.29%
- C) 21.00%, 23.29%
- D) 23.00%, 25.48%

Answer: <https://biology-forums.com/index.php?topic=1848632>

Question 668

Toothpaste and toothbrushes are complements, so the _____ elasticity of demand is _____.

- A) cross; positive
- B) income; negative
- C) cross; negative
- D) income; positive

Answer: <https://biology-forums.com/index.php?topic=1850187>

Question 669

The cash budget is composed of four elements: cash receipts, cash disbursements, depreciation, and the net change in cash for the period.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849358>

Question 670

We compute the profitability index of a capital budgeting proposal by

- A) multiplying the internal rate of return by the cost of capital.
- B) dividing the present value of the annual after-tax cash flows by the cost of capital.
- C) dividing the present value of the annual after-tax cash flows by the cash investment in the project.
- D) multiplying the cash inflow by the internal rate of return.

Answer: <https://biology-forums.com/index.php?topic=1848771>

Question 671

In order to be conservative, accrual accounting requires that expenses be recorded when incurred, but revenues are recorded only after the cash has been received.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847889>

Question 672

A price below the equilibrium price results in

- A) a surplus.
- B) a shortage.
- C) excess supply.
- D) a further price fall.

Answer: <https://biology-forums.com/index.php?topic=1850075>

Question 673

A security is considered liquid if it can be sold, regardless of the time it takes to make the sale.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849651>

Question 674

Banker's acceptances have the following characteristics EXCEPT

- A) typical maturities of 1 to 5 years.
- B) fully taxable at the federal, state, and local levels.
- C) are sold on a discount basis and payable to the bearer.
- D) are not "issued" in predetermined denominations.

Answer: <https://biology-forums.com/index.php?topic=1849701>

Question 675

WRJ has a debt ratio of .4, current liabilities of \$18,000, and total assets of \$120,000. What is the level of WRJ's total liabilities?

- A) \$22,000
- B) \$48,000
- C) \$58,000
- D) \$63,934

Answer: <https://biology-forums.com/index.php?topic=1848024>

Question 676

The payment of dividends may indirectly result in closer monitoring of management's investment activities, thus increasing shareholder value by

- A) reducing agency costs.
- B) increasing information asymmetry.
- C) increasing a company's amount of free cash flow.
- D) reducing auditing fees.

Answer: <https://biology-forums.com/index.php?topic=1849167>

Question 677

AFB, Inc. stock is currently selling for \$20 per share. The company completed a 5-for-1 stock split two days earlier. Two years ago, the company had a 2-for-1 stock split. If the stock splits had not happened, the price of AFB, Inc. stock would, other things being equal, be

- A) \$140.00 per share.
- B) \$200.00 per share.
- C) \$100.00 per share.
- D) \$2.00 per share.

Answer: <https://biology-forums.com/index.php?topic=1849233>

Question 678

Bill's Bike Shop has a return on assets of 12%. Anton's assets = \$100 while Anton's owner's equity = \$40 and its debt equals \$60. What is Bill's return on equity?

- A) 18%
- B) 20%
- C) 30%
- D) 12%

Answer: <https://biology-forums.com/index.php?topic=1848041>

Question 679

A set of estimates which corresponds to the worst and best case outcomes is often desired in preparing a financial forecast.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849288>

Question 680

Firms like to hold large stocks of cash since the risk of becoming insolvent is minimized.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849630>

Question 681

Fiesta Taco Company purchases 30,000 boxes of ground beef each year. It costs \$50 to place each order and \$10.00 per year for each box held as inventory.

- a. What is the average inventory held during the year?
- b. What is the economic order quantity for the ground beef?
- c. How many orders will be made each year?

Answer: <https://biology-forums.com/index.php?topic=1849783>

Question 682

Which of the following is NOT a motive for a corporation to hold cash balances?

- A) transactions
- B) float
- C) precautionary
- D) speculative

Answer: <https://biology-forums.com/index.php?topic=1849669>

Question 683

If the cross elasticity of demand between goods X and Y is positive and between goods X and Z is negative, then X and Y are _____ and X and Z are _____.

- A) price inelastic; complements
- B) complements; substitutes
- C) substitutes; complements
- D) price inelastic; income elastic

Answer: <https://biology-forums.com/index.php?topic=1850189>

Question 684

High Inc. has an accounts receivable turnover ratio of 7.3. Low Company has an accounts receivable turnover ratio of 5. Assuming that High and Low have the same sales level, which of the following statements is correct?

- A) High's average collection period is less than Low's.
- B) Low's average collection period is less than High's.
- C) High has a higher accounts receivable balance on average than does Low Company.
- D) Low Company has (on average) a lower accounts receivable balance than does High.

Answer: <https://biology-forums.com/index.php?topic=1848021>

Question 685

The vertical axis in a graph

- A) is named the y-axis.
- B) is named the x-axis.
- C) is not used in a scatter diagram.
- D) has no origin.

Answer: <https://biology-forums.com/index.php?topic=1849809>

Question 686

For many years short wave radios were a way of getting news from faraway places and in difficult conditions. But as new technologies have spread, the people listening to these devices has decreased. (Source: The Economist, July 7, 2012)

As new technology creates substitutes for short-wave radios, the demand for short-wave radios _____ and the consumer surplus from short-wave radios _____.

- A) increases; increases
- B) decreases; decreases
- C) does not change; decreases
- D) decreases; does not change

Answer: <https://biology-forums.com/index.php?topic=1850218>

Question 687

How is preferred stock similar to common stock?

- A) Preferred dividend payments usually have unlimited growth potential.
- B) Investors cannot sue a corporation for the non-payment of dividends.
- C) Both preferred and common stockholders have voting control of a firm.
- D) Preferred stock dividends and common stock dividends are fixed.

Answer: <https://biology-forums.com/index.php?topic=1848478>

Question 688

Suppose you produce 10 bikes a day for a total cost of \$1000. Total costs increase to \$1100 when you produce 15 bikes. Finally, total costs increase to \$1300 if you make 20 bikes. A graph showing the relationship between total costs and the number of bikes produced would be

- A) a negatively-sloped line that becomes steeper.
- B) a positively-sloped line that becomes steeper.
- C) a negatively-sloped line that becomes flatter.
- D) a positively-sloped line that becomes flatter.

Answer: <https://biology-forums.com/index.php?topic=1849835>

Question 689

Your friend, John, believes that since capital markets are efficient, he doesn't need to read the financial press or be involved in stock research before purchasing stocks for his portfolio. He simply throws darts at the stock pages and buys the stocks the darts hit. Is stock research and analysis important when buying and selling stocks in an efficient market?

Answer: <https://biology-forums.com/index.php?topic=1847627>

Question 690

Investor A owns 10% of the common stock of IDE Corporation. After IDE completes a 2-for-1 stock split, Investor A will own 20% of the common stock of the corporation.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849225>

Question 691

The EOQ model calculates the size of the firm's inventory given its expected usage, carrying costs, and ordering costs.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849754>

Question 692

If a firm's tax rate increases, then its weighted average cost of capital increases also.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848661>

Question 693

JKE, Inc. has a break-even sales level of \$10,000,000 and has fixed costs of \$4,000,000 per year. The selling price per unit is \$200. What is the variable cost per unit?

Answer: <https://biology-forums.com/index.php?topic=1849024>

Question 694

Brown Inc. needs to borrow \$250,000 for the next 6 months. The company has a line of credit with a bank that allows the company to borrow funds with an 8% interest rate subject to a 20% of loan compensating balance. Currently, Brown Inc. has no funds on deposit with the bank and will need the loan to cover the compensating balance as well as their other financing needs. How much will Brown Inc. need to borrow?

- A) \$270,000
- B) \$300,000
- C) \$312,500
- D) \$347,222

Answer: <https://biology-forums.com/index.php?topic=1849475>

Question 695

The EOQ model assumes constant demand and constant unit price.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849764>

Question 696

You estimate you'll need \$200,000 per year for 25 years starting on your 65th birthday to live on during your retirement. Today is your 50th birthday and you want to make equal deposits into an account paying 9% interest per year, the first deposit today and the last deposit on your 64th birthday. How much must each deposit be (rounded to the nearest \$10)?

- A) \$99,920
- B) \$85,840
- C) \$66,909
- D) \$49,380

Answer: <https://biology-forums.com/index.php?topic=1848124>

Question 697

The Colorado Jet Boat Company had a cash balance of \$3 million at the beginning of 2010. During 2010, Sales were \$8 million and expenses were \$7 million. Therefore,

- A) the cash balance at the end of 2010 is \$4 million.
- B) the cash balance at the end of 2010 must be greater than \$3 million.
- C) the cash balance at the end of 2010 must be less than \$11 million.
- D) the cash balance at the end of 2010 cannot be determined from the information given.

Answer: <https://biology-forums.com/index.php?topic=1847896>

Question 698

If the future value of an annuity is known, then the present value of the annuity can be found using the present value of a lump sum formula, even if

the amount of each annuity payment is unknown.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848098>

Question 699

At one point along a PPF, 50 tons of coffee and 100 tons of bananas are produced. At another point along the same PPF, 30 tons of coffee and 140 tons of bananas are produced. The opportunity cost of a ton of coffee between these points is

- A) 7/5 of a ton of bananas per ton of coffee.
- B) 1/2 of a ton of bananas per ton of coffee.
- C) 5/7 of a ton of bananas per ton of coffee.
- D) 2 tons of bananas per ton of coffee.

Answer: <https://biology-forums.com/index.php?topic=1849921>

Question 700

Ratios are used to standardize financial information, thereby making it easier to interpret.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847936>

Question 701

Different discounted cash flow evaluation methods may provide conflicting rankings of investment projects when

- A) the size of investment outlays differ.
- B) the projects are mutually exclusive.
- C) the accounting policies differ.
- D) the internal rate of return equals the cost of capital.

Answer: <https://biology-forums.com/index.php?topic=1848827>

Question 702

A well-diversified portfolio typically has systematic risk equal to about 40% of the portfolio's total risk.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848246>

Question 703

A short-term T-bill's rate of return should be used in the CAPM formula to determine the cost of equity capital regardless of the length of the project under consideration.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848612>

Question 704

A company has preferred stock with a current market price of \$18 per share. The preferred stock pays an annual dividend of 4% based on a par value of \$100. Flotation costs associated with the sale of preferred stock equal \$1.50 per share. The company's marginal tax rate is 40%. Therefore, the cost of preferred stock is

- A) 28.80%.
- B) 24.24%.
- C) 22.22%.
- D) 14.55%.

Answer: <https://biology-forums.com/index.php?topic=1848625>

Question 705

Which of the following sources of short-term financing is likely to have the lowest interest rate?

- A) accounts receivable loan (pledging of accounts receivable)
- B) line of credit
- C) line of credit with a compensating balance
- D) commercial paper

Answer: <https://biology-forums.com/index.php?topic=1849478>

Question 706

The minimum denomination of U.S. Treasury bills is \$100,000.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849649>

Question 707

What is the primary tool for short-term financial forecasting?

- A) pro forma income statement
- B) pro forma balance sheet
- C) pro forma cash budget
- D) capital budgeting

Answer: <https://biology-forums.com/index.php?topic=1849336>

Question 708

Why do differences in the accounting practices of firms limit the usefulness of financial ratios?

Answer: <https://biology-forums.com/index.php?topic=1848058>

Question 709

Three ways that savings can be transferred through the financial markets to those in need of funds include direct transfers, indirect transfers using the investment banker, and indirect transfers using the financial intermediary.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847684>

Question 710

A stock with a beta of 1.4 has 40% more variability in returns than the average stock.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848241>

Question 711

The residual dividend theory implies that internally generated funds (i.e., retained earnings) should be used to fund all new investment projects before the company uses any additional debt.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849149>

Question 712

The inclusion of a compensating balance requirement in a line of credit will reduce the effective annual cost of credit since the bank has additional collateral for the borrowing.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849467>

Question 713

Master Craft Control Inc. has bonds that mature in 6 1/2 years with a par value of \$1,000. They pay a coupon rate of 9% with semiannual payments. If the required rate of return on these bonds is 11% what is the bond's value?

- A) \$1,026.73
- B) \$973.76
- C) \$1,022.74
- D) \$908.83

Answer: <https://biology-forums.com/index.php?topic=1848401>

Question 714

Companies that sell basic necessities face the highest levels of business risk because consumers will price shop aggressively for items they purchase on a regular basis.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848982>

Question 715

Preferred stock valuation usually treats the preferred stock as a

- A) capital asset.
- B) perpetuity.
- C) common stock.
- D) long-term bond.

Answer: <https://biology-forums.com/index.php?topic=1848472>

Question 716

The risk-return trade-off that investors face on a day-to-day basis is based on realized rates of return because expected returns involve too much uncertainty.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848206>

Question 717

Discretionary financing needs will be lower if _____. Assume "all else equal."

- A) the dividend payout ratio is raised
- B) the firm's net profit margin increases
- C) sales increase
- D) fixed assets are currently at full capacity

Answer: <https://biology-forums.com/index.php?topic=1849324>

Question 718

It is never appropriate to compare nominal rates unless they include the same number of compounding periods per year.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848170>

Question 719

\$10,000 invested at 10% per year for 5 years earns interest equal to \$6,105.10; therefore, \$10,000 invested at 10% per year for 10 years will earn interest equal to \$12,210.20 (2 times \$6,105.10).

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848066>

Question 720

Williams Inc. has a current ratio equal to 3, a quick ratio equal to 1.8, and total current assets of \$6 million. Williams' inventory balance is

- A) \$2,000,000.
- B) \$2,400,000.
- C) \$4,000,000.
- D) \$4,800,000.

Answer: <https://biology-forums.com/index.php?topic=1847973>

Question 721

Bevel Building Products, Inc., whose common stock is currently selling for \$12 per share, is expected to pay a \$1.80 dividend, and sell for \$14.40 one year from now. What are the dividend yield, growth rate, and total rate of return, respectively?

- A) 15%; 20%; 35%
- B) 10%; 5%; 15%
- C) 15%; 12%; 27%
- D) 20%; 15%; 35%

Answer: <https://biology-forums.com/index.php?topic=1848579>

Question 722

A quote of .7645 euros per dollar in New York is an example of a direct quote.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849533>

Question 723

In the present value bond valuation model, risk is generally incorporated into the

- A) maturity amount.
- B) timing of cash flows (assuming more risky cash flows are received early).
- C) discount rate or required return.
- D) cash flows (making some smaller if they are more risky).

Answer: <https://biology-forums.com/index.php?topic=1848380>

Question 724

As of today, the most severe economic crisis to afflict the United States economy is considered to be

- A) the Great Depression of the 1930s.

- B) the Great Recession of 2007-2009.
- C) the Reagan Tax Law Changes of 1985.
- D) the Savings and Loan Crisis of 1978-1982.

Answer: <https://biology-forums.com/index.php?topic=1847609>

Question 725

Households are buyers in factor markets and sellers in goods markets.

Answer: <https://biology-forums.com/index.php?topic=1850028>

Question 726

Manny and Irene will be retiring in fifteen years and would like to buy a Mexican villa. The villa costs \$500,000 today, and housing prices in Mexico are expected to increase by 6% per year. Manny and Irene want to make fifteen equal annual payments into an account, starting today, so there will be enough money to purchase the villa in fifteen years. If the account earns 10% per year, what is the amount of each deposit?

- A) \$79,885
- B) \$72,623
- C) \$34,286
- D) \$32,947

Answer: <https://biology-forums.com/index.php?topic=1848146>

Question 727

The profitability index provides an advantage over the net present value method by reporting the present value of benefits per dollar invested.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848720>

Question 728

Suppose a market begins in equilibrium. If supply increases, then at the original equilibrium price the quantity demanded is

- A) is less than the quantity supplied and a surplus results.
- B) is less than the quantity supplied and a shortage results.
- C) exceeds the quantity supplied and a surplus results.
- D) exceeds the quantity supplied and a shortage results.

Answer: <https://biology-forums.com/index.php?topic=1850085>

Question 729

Why doesn't an income statement provide a measure of a firm's cash flows?

Answer: <https://biology-forums.com/index.php?topic=1847910>

Question 730

Proceeds from the issuance of new debt and principal payments upon maturity of debt used to finance a project should be included in the calculation of the project's after-tax cash flows.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848883>

Question 731

Assume that the tax on dividends and the tax on capital gains is the same. All else equal, what would a prudent investor prefer?

- A) The prudent investor would be indifferent between receiving dividends or capital gains.
- B) The prudent investor would prefer dividends a dollar today is always worth more than a dollar to be received in the future.
- C) The prudent investor would prefer capital gain the capital gain tax liability can be deferred until gains are realized.
- D) More information is needed.

Answer: <https://biology-forums.com/index.php?topic=1849177>

Question 732

Only individual investors participate in public offerings, while institutional investors participate in private placements.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847743>

Question 733

Changes in the general economy, like changes in interest rates or tax laws, represent what type of risk?

- A) company-unique risk
- B) market risk

- C) unsystematic risk
- D) diversifiable risk

Answer: <https://biology-forums.com/index.php?topic=1848280>

Question 734

What is direct foreign investment? What are the additional risks that a multinational corporation must consider before undertaking direct investment in a foreign country?

Answer: <https://biology-forums.com/index.php?topic=1849612>

Question 735

What differentiates "discretionary financing needs" from "external financing needs"?

- A) assets
- B) retained earnings
- C) sales
- D) spontaneous liabilities

Answer: <https://biology-forums.com/index.php?topic=1849329>

Question 736

Stock A has a beta of 1.2 and a standard deviation of returns of 18%. Stock B has a beta of 1.8 and a standard deviation of returns of 18%. If the market risk premium increases, then

- A) the required return on stock B will increase more than the required return on stock A.
- B) the required returns on stocks A and B will both increase by the same amount.
- C) the required returns on stocks A and B will remain the same.
- D) the required return on stock A will increase more than the required return on stock B.

Answer: <https://biology-forums.com/index.php?topic=1848296>

Question 737

The percent of sales method provides a general estimate, but the more detailed cash budget will ultimately be used to estimate financing needs.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849355>

Question 738

Incremental cash flows refer to

- A) the difference between after-tax cash flows and before-tax accounting profits.
- B) the new cash flows that will be generated if a project is undertaken.
- C) the cash flows of a project, minus financing costs.
- D) the cash flows that are foregone if a firm does not undertake a project.

Answer: <https://biology-forums.com/index.php?topic=1848863>

Question 739

The marketing people for AT&T believe that if they lower the price of long-distance phone calls by 5 percent, their quantity demanded will increase by 15 percent. If they are correct in their belief, then

- A) the demand for long-distance phone calls is price inelastic.
- B) the total revenue from long-distance phone calls will increase if they lower the price.
- C) the demand for long-distance phone calls is income elastic.
- D) the total revenue from long-distance phone calls will decrease if they lower the price.

Answer: <https://biology-forums.com/index.php?topic=1850149>

Question 740

What is the most commonly used method for incorporating risk into the capital-budgeting decision? How is this technique related to Principle 3: Risk Requires a Reward?

Answer: <https://biology-forums.com/index.php?topic=1848974>

Question 741

Your company is considering an investment in one of two mutually exclusive projects. Project 1 involves a labor intensive production process. Initial outlay for Project 1 is \$1,495 with expected after-tax cash flows of \$500 per year in years 1-5. Project 2 involves a capital intensive process, requiring an initial outlay of \$6,704. After-tax cash flows for Project 2 are expected to be \$2,000 per year for years 1-5. Your firm's discount rate is 10%. If your company is not subject to capital rationing, which project(s) should you take on?

- A) Project 1

- B) Project 2
- C) Projects 1 and 2
- D) Neither project is acceptable.

Answer: <https://biology-forums.com/index.php?topic=1848822>

Question 742

If the price of a video rental is below its equilibrium price, there will be a _____ of video rentals and the price will _____.

- A) shortage; rise
- B) shortage; fall
- C) surplus; rise
- D) surplus; fall

Answer: <https://biology-forums.com/index.php?topic=1850076>

Question 743

Most income in the United States is earned by business owners as profit.

Answer: <https://biology-forums.com/index.php?topic=1849805>

Question 744

Investment A and Investment B both have the same expected return, but Investment A is more risky than Investment B. In the technical jargon of modern portfolio theory, Investment A is said to "dominate" Investment B.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848230>

Question 745

Which of the following represents the correct ordering of returns over the period 1926 to 2014 (from lowest to highest return)?

- A) Treasury bills, long-term government bonds, long-term corporate bonds, common stocks
- B) common stocks, long-term government bonds, long-term corporate bonds, Treasury bills
- C) Treasury bills, common stocks, long-term corporate bonds, long-term government bonds
- D) long-term corporate bonds, Treasury bills, long-term government bonds, common stocks

Answer: <https://biology-forums.com/index.php?topic=1847784>

Question 746

The opportunity cost of any choice you make is the highest-valued alternative that you had to give up when you made the choice.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847570>

Question 747

Lockbox arrangements may reduce mail float, processing float, and transit float.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849632>

Question 748

Net working capital is equal to gross working capital minus depreciation.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847862>

Question 749

U.S. Treasury bills are exempt from federal, state, and local income taxes.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849656>

Question 750

The need for extensive regulation of investment banking firms is limited due to the highly competitive nature of that industry.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847729>

Question 751

When a sales tax is imposed on sellers, the supply curve shifts so that the vertical distance between the old and the new supply curve equals the

- A) sales tax multiplied by the price elasticity of demand.
- B) sales tax multiplied by the price elasticity of supply.
- C) amount of the sales tax.
- D) sales tax divided by the price elasticity of demand.

Answer: <https://biology-forums.com/index.php?topic=1850327>

Question 752

Primary market transactions cannot be undertaken in over the counter markets.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847693>

Question 753

Profits are down so the controller decides to change the corporation's accounting policy relating to inventory costing. The change will allow the corporation to report higher income and higher assets, although the physical inventory has not changed. Which of the following statements is MOST correct?

- A) The stock price is likely to increase because income is higher.
- B) The stock price is likely to be unaffected because the stock market is efficient.
- C) The stock price is likely to decrease because reported inventory is higher.
- D) If the stock price increases, the stock market is efficient.

Answer: <https://biology-forums.com/index.php?topic=1847589>

Question 754

Short-term United States Treasury bills are widely used as proxies for risk-free assets, yet the returns on these T-bills are consistently greater than zero. Is this consistent with the concept of a risk-return trade-off?

Answer: <https://biology-forums.com/index.php?topic=1847612>

Question 755

In a perfect market, investors are only concerned with total returns and are not concerned whether it is in capital gains or dividend income.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849144>

Question 756

Jimmy just bought a new Ford SUV for his business. The price of the vehicle was \$40,000. Jimmy made a \$5,000 down payment and took out an amortized loan for the rest. The car dealership made the loan at 8% interest compounded monthly for five years. He is to pay back the principal and interest in equal monthly installments beginning one month from now. Determine the amount of Jimmy's monthly payment.

- A) \$634.56
- B) \$709.67
- C) \$745.87
- D) \$809.33

Answer: <https://biology-forums.com/index.php?topic=1848141>

Question 757

All of the following may influence a firm's dividend payment EXCEPT

- A) investment opportunities.
- B) investor transaction costs.
- C) common stock par value.
- D) flotation costs.

Answer: <https://biology-forums.com/index.php?topic=1849173>

Question 758

In Excel, the variable pv stands for a bond's par value.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848385>

Question 759

The inventory loan agreement in which the lender can increase his or her security interest by having specific items of inventory identified in the loan agreement is called

- A) a floating lien agreement.
- B) a chattel mortgage agreement.

- C) a field warehouse agreement.
- D) inventory identification agreement.

Answer: <https://biology-forums.com/index.php?topic=1849481>

Question 760

Which of the following should NOT be considered when calculating a firm's WACC?

- A) cost of preferred stock
- B) after-tax cost of bonds
- C) cost of common stock
- D) cost of carrying inventory

Answer: <https://biology-forums.com/index.php?topic=1848644>

Question 761

All of the following are potential benefits of stock repurchases EXCEPT

- A) a means for providing an internal investment opportunity.
- B) an approach for maintaining the existing capital structure while still making a distribution to shareholders.
- C) a favorable impact on earnings per share.
- D) the elimination of a minority ownership group of stockholders.

Answer: <https://biology-forums.com/index.php?topic=1849256>

Question 762

You are working on your company's cash budget for the coming year and you believe there may be short periods of time where financing is required. Which of the following sources of short-term financing is most certain to be available when needed?

- A) trade credit
- B) line of credit with a bank
- C) revolving credit agreement with a bank
- D) accounts receivable

Answer: <https://biology-forums.com/index.php?topic=1849473>

Question 763

The demand for Honda Accords is probably

- A) inelastic but more elastic than the demand for automobiles.
- B) elastic and more elastic than the demand for automobiles.
- C) inelastic and less elastic than the demand for automobiles.
- D) elastic but less elastic than the demand for automobiles.

Answer: <https://biology-forums.com/index.php?topic=1850176>

Question 764

Which of the following transactions will increase a corporation's operating return on assets?

- A) sell stock and use the money to pay off some long-term debt
- B) sell 10-year bonds and use the money to pay off current liabilities
- C) negotiate a new contract that lowers raw material costs by 10%
- D) increase sales by 10%

Answer: <https://biology-forums.com/index.php?topic=1847967>

Question 765

At one point along a PPF, 10 pizzas and 7 sandwiches can be produced. At another point along the same PPF, 9 pizzas and 10 sandwiches can be produced. The opportunity cost of a pizza between these points is _____ per pizza.

- A) 7/10 of a sandwich
- B) 10/7 of a sandwich
- C) 1/3 of a sandwich
- D) 3 sandwiches

Answer: <https://biology-forums.com/index.php?topic=1849923>

Question 766

In which of the following cases will the agency problem between shareholders and managers be the greatest?

- A) 100% of the common stock is owned by the founder of the company who decided to retire and hired a manager to run his business for him.
- B) The Johnson family owns 50% of the common stock of the company. The other 50% is owned by 5 mutual funds.
- C) The common stock of the company is owned by many diverse shareholders, with no shareholder owning more than 1% of the outstanding stock.
- D) All top managers in the company own significant amounts of stock and stock options.

Answer: <https://biology-forums.com/index.php?topic=1847600>

Question 767

One weakness of the times interest earned ratio is that it includes only the annual interest expense as a finance expense and ignores other financing items such as lease payments that must be paid.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847957>

Question 768

Which of the following statements regarding the production possibilities frontier is TRUE?

- A) Points outside the frontier are attainable.
- B) Points inside the frontier are attainable.
- C) Points on the frontier are less efficient than points inside the frontier.
- D) None of the above because all of the above statements are false.

Answer: <https://biology-forums.com/index.php?topic=1849897>

Question 769

Common stock is considered a short-term security because it has no maturity date and a long-term security is one with a maturity date of more than one year.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847670>

Question 770

Overhead costs are sometimes incremental cash flows and other times are considered sunk costs.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848841>

Question 771

Considering a PPF with health care services on the vertical axis and other goods and services on the horizontal axis, the increasing production of health care services in the United States as a result of the aging population represents

- A) a movement upward along the PPF.
- B) an outward shift of the PPF from the vertical axis.
- C) an outward shift of the PPF from the horizontal axis.
- D) a movement downward along the PPF.

Answer: <https://biology-forums.com/index.php?topic=1849913>

Question 772

Discretionary financing needs will be higher if _____. Assume "all else equal."

- A) the firm's net profit margin increases
- B) sales decline
- C) the dividend payout ratio is raised
- D) excess capacity exists for fixed assets

Answer: <https://biology-forums.com/index.php?topic=1849325>

Question 773

Marketable securities are purchased when excess cash is temporarily available and sold when cash is needed.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849616>

Question 774

Share repurchases are not part of the stock valuation process because by definition the cash flow from a share repurchase ends the investment as the stock is no longer owned by the shareholder.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849118>

Question 775

D&B Contracting plans to purchase a new backhoe. The one under consideration costs \$233,000, and has a useful life of 8 years. After-tax cash flows are expected to be \$31,384 in each of the 8 years and nothing thereafter. Calculate the internal rate of return for the grader.

Answer: <https://biology-forums.com/index.php?topic=1848794>

Question 776

Blank DVDs and prerecorded DVDs are substitutes in production. An increase in the price of a blank DVD will lead to

- A) an increase in the supply of prerecorded DVDs.
- B) a decrease in the supply of prerecorded DVDs.
- C) an increase in the quantity supplied of prerecorded DVDs but not in the supply of prerecorded DVDs.
- D) a decrease in the quantity supplied of prerecorded DVDs but not in the supply of prerecorded DVDs.

Answer: <https://biology-forums.com/index.php?topic=1850047>

Question 777

Assume that you have \$165,000 invested in a stock whose beta is 1.25, \$85,000 invested in a stock whose beta is 2.35, and \$235,000 invested in a stock whose beta is 1.11. What is the beta of your portfolio?

- A) 1.37
- B) 2.01
- C) 1.85
- D) 1.57

Answer: <https://biology-forums.com/index.php?topic=1848275>

Question 778

Keystone Corporation will issue new common stock to finance an expansion. The existing common stock just paid a \$1.50 dividend, and dividends are expected to grow at a constant rate 8% indefinitely. The stock sells for \$45, and flotation expenses of 5% of the selling price will be incurred on new shares. What is the cost of new common stock be for Keystone Corp.?

- A) 11.33%
- B) 11.51%
- C) 11.60%
- D) 11.79%
- E) 12.53%

Answer: <https://biology-forums.com/index.php?topic=1848640>

Question 779

The risk-return trade-off leads to two objectives: (1) keep enough cash on hand to make necessary payments, and (2) reduce investments in idle cash to a minimum.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849627>

Question 780

Given the anticipated rate of inflation (i) of 2.13% and the real rate of interest (R) of 3.1%, find the nominal rate of interest (r).

Answer: <https://biology-forums.com/index.php?topic=1847810>

Question 781

If a firm has no operating leverage and no financial leverage, then a 10% increase in sales will have what effect on EPS?

- A) EPS will remain the same.
- B) EPS will increase by 10%.
- C) EPS will decrease by 10%.
- D) EPS will increase by less than 10%.

Answer: <https://biology-forums.com/index.php?topic=1849058>

Question 782

Accounting rules specify that assets on the balance sheet must be reported at current market value, because this is the valuation most useful to potential investors.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847853>

Question 783

The less risky the bond (or the higher the bond rating) the lower will be the yield to maturity on the bond.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848410>

Question 784

A seasoned equity offering is the sale of additional shares by a company whose shares are already publicly traded.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847692>

Question 785

What is a lockbox arrangement, and how does its use reduce a firm's float?

Answer: <https://biology-forums.com/index.php?topic=1849722>

Question 786

If you are an importer of goods and you will make payment for the purchase of inventory on 90-day terms, which of the below is the correct term for the exchange rate that you will use?

- A) indirect rate
- B) spot rate
- C) direct rate
- D) forward rate

Answer: <https://biology-forums.com/index.php?topic=1849565>

Question 787

The term "lumpy asset" means

- A) the same thing as assets that exhibit scale economies.
- B) assets that can be purchased in incremental units.
- C) assets that have economies of scale but not economies of scope.
- D) assets that must be purchased in discrete quantities.

Answer: <https://biology-forums.com/index.php?topic=1849350>

Question 788

The income statement for Simpson, Inc. indicates that tax expense was \$30,000. The balance sheet indicates that taxes payable for the same year increased by \$5,000. What amount did Simpson, Inc. actually pay in taxes during this year?

- A) \$15,000
- B) \$20,000
- C) \$25,000
- D) Cannot be determined without the cash balance

Answer: <https://biology-forums.com/index.php?topic=1847918>

Question 789

Money-market instruments include

- A) common stock.
- B) preferred stock.
- C) T-bonds.
- D) T-bills.

Answer: <https://biology-forums.com/index.php?topic=1847700>

Question 790

Assume that you won the Lotta Dough Lotto jackpot for \$20 million. Further assume that you were offered a choice to receive the \$20 million today, or receive it in equal installments of \$1 million per year for 20 years. According to one of the principles of finance, which would you take?

- A) the \$20 million in equal installments of \$1 million per year for 20 years because you would be afraid of spending it all right away
- B) the \$20 million today because it would be worth more than if you would receive it in equal installments of \$1 million per year for 20 years
- C) You would be indifferent as to when you would receive the \$20 million since the total number of dollars received is the same either way.
- D) the \$20 million in equal installments of \$1 million per year for 20 years because it would be worth more than if you would receive it today

Answer: <https://biology-forums.com/index.php?topic=1847607>

Question 791

Which of the following is true if a firm wishes to collect its accounts faster by imposing stricter credit terms on its customers?

- A) The firm's average collection period is likely to fall.
- B) The firm's accounts receivable turnover might rise.
- C) The firm's sales might decrease.
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=1848040>

Question 792

General Electric (GE) has been a public company for many years with its common stock traded on the New York Stock Exchange. If GE decides to sell 500,000 shares of new common stock, the transaction will be describe as

- A) an initial public offering.
- B) a secondary market transaction because GE common stock has been trading for years.
- C) a seasoned equity offering because GE has sold common stock before.
- D) a money-market transaction because GE raises new money to fund its business.

Answer: <https://biology-forums.com/index.php?topic=1847699>

Question 793

Effective cash management involves the trade-off between the risk of insolvency (resulting in higher near cash balances) and the desire to earn higher returns (resulting in lower near cash balances).

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849626>

Question 794

The "percent of sales method" is a method of preparing pro forma financial statements. All of the following would be examples of how the "percent of sales method" is developed EXCEPT:

- A) Forecast expenses by applying a percent of projected sales, using last year's expenses as a percent of last year's sales.
- B) Forecast assets by applying a percent of projected sales, using current year's assets as a percent of current year's sales.
- C) Approximate liabilities by applying a percent of projected sales, using the last five-year average of liabilities as a percent of sales.
- D) Forecast retained earnings by applying a percent of projected sales, using current year's retained earnings as a percent of current year's sales.

Answer: <https://biology-forums.com/index.php?topic=1849321>

Question 795

A life insurance company purchases \$1 billion of corporate bonds from premiums collected on its life insurance policies. Therefore

- A) the corporate bonds are indirect securities and the life insurance policies are direct securities.
- B) the corporate bonds are indirect securities and the life insurance policies are indirect securities.
- C) the corporate bonds are direct securities and the life insurance policies are indirect securities.
- D) the corporate bonds are direct securities and the life insurance policies are direct securities.

Answer: <https://biology-forums.com/index.php?topic=1847705>

Question 796

To be included in a capital budgeting analysis, all incremental free cash flows must be expensed on the company's books, otherwise generally accepted accounting principles will be violated.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848843>

Question 797

Whenever the internal rate of return on a project equals that project's required rate of return, the net present value equals zero.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848722>

Question 798

Two advantages of financing with current liabilities are flexibility and lower interest cost.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849377>

Question 799

The primary source of spontaneous financing is accrued taxes.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849421>

Question 800

The residual dividend theory suggests that dividends will only be paid

- A) if the tax rate on capital gains is higher than the tax rate on dividends.
- B) if the corporation has more positive NPV projects than it can fund.
- C) if interest rates available to shareholders are higher than the required return on the company's stock.

D) if current retained earnings exceed the equity portion of the firm's capital budget.

Answer: <https://biology-forums.com/index.php?topic=1849165>

Question 801

Coppell Timber Company had total earnings last year of \$5,000,000, but expects total earnings to drop to \$4,750,000 this year because of a slump in the housing industry. There are currently 1,000,000 shares of common stock outstanding. The company has \$4,000,000 worth of investments to undertake this year. The company finances 40 percent of its investments with debt and 60 percent with equity capital. The company paid \$3.00 per share in dividends last year.

- If the company follows a pure residual dividend policy, how large a dividend will each shareholder receive this year?
- If the company maintains a constant dividend payout ratio each year, how large a dividend will each shareholder receive this year?
- If the company follows a constant dollar dividend policy, how large a dividend will each shareholder receive this year?

Answer: <https://biology-forums.com/index.php?topic=1849185>

Question 802

While many factors contributed to the financial crisis of 2007 and beyond, it is safe to say that real estate loans were NOT much of a contributing factor.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847573>

Question 803

If you were a treasurer for a Fortune 1,000 corporation who has responsibility for investing "excess cash balances," which of the following alternatives would you be least likely to select?

- commercial paper
- common stock
- bankers' acceptances
- U.S. Treasury bills

Answer: <https://biology-forums.com/index.php?topic=1849702>

Question 804

Which of the following shifts the supply curve rightward?

- an increase in the population
- a positive change in preferences for the good
- a decrease in the price of the good
- a decrease in the price of a factor of production used to produce the good

Answer: <https://biology-forums.com/index.php?topic=1850043>

Question 805

If a project's IRR is equal to its required return, then the project's NPV is equal to zero and its PI is equal to one.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848820>

Question 806

A scatter diagram will be most useful

- in discerning a possible relationship between height and weight for individuals.
- in resolving a dispute over two normative assertions.
- in predicting next year's rate of unemployment.
- All of the above are correct.

Answer: <https://biology-forums.com/index.php?topic=1849821>

Question 807

The bid-asked spread is much lower for currencies that are infrequently traded in order to compensate banks for providing the service.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849525>

Question 808

Which goods have more elastic demands?

- goods with many substitutes
- goods which are necessities
- goods with few substitutes

D) goods whose purchase represents a small percentage of income

Answer: <https://biology-forums.com/index.php?topic=1850170>

Question 809

Your firm is considering investing in one of two mutually exclusive projects. Project A requires an initial outlay of \$3,500 with expected future cash flows of \$2,000 per year for the next three years. Project B requires an initial outlay of \$2,500 with expected future cash flows of \$1,500 per year for the next two years. The appropriate discount rate for your firm is 12% and it is not subject to capital rationing. Assuming both projects can be replaced with a similar investment at the end of their respective lives, compute the NPV of the two chain cycle for Project A and three chain cycle for Project B.

- A) \$2,232 and \$85
- B) \$5,000 and \$1,500
- C) \$2,865 and \$94
- D) \$3,528 and \$136

Answer: <https://biology-forums.com/index.php?topic=1848823>

Question 810

_____ is the value of a good minus the price paid for it summed over the quantity bought.

- A) Producer surplus
- B) Consumer surplus
- C) Surplus
- D) Shortage

Answer: <https://biology-forums.com/index.php?topic=1850214>

Question 811

A mortgage bond is secured by a lien on real property.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848326>

Question 812

The value of the x-coordinate of a point in a graph is the length of a line from the point to the

- A) origin.
- B) scalar.
- C) x-axis.
- D) y-axis.

Answer: <https://biology-forums.com/index.php?topic=1849811>

Question 813

Which of the following statements concerning junk bonds is MOST correct?

- A) A rational investor will always prefer a AAA-rated bond to a junk bond.
- B) Junk bonds have higher interest rates than AAA-rated bonds because of the higher risk.
- C) Junk bonds may also be called low-yielding securities.
- D) Junk bonds are priced higher than AAA-rated bonds because junk bonds are more risky.

Answer: <https://biology-forums.com/index.php?topic=1848330>

Question 814

Under what condition would you NOT accept a project that has a positive net present value?

- A) If the project has a profitability index less than zero.
- B) If two or more projects are mutually inclusive.
- C) If the firm is limited in the capital it has available (capital rationing).
- D) If a project has more than one sign reversal.

Answer: <https://biology-forums.com/index.php?topic=1848808>

Question 815

Which of the following ratios would be the best way to determine how customers are paying for their purchases?

- A) inventory turnover
- B) total asset turnover
- C) current ratio
- D) average collection period

Answer: <https://biology-forums.com/index.php?topic=1848033>

Question 816

A liquidity-risk premium is the additional return required by investors in longer-term securities to compensate them for the greater risk of price fluctuation on those securities caused by interest rate changes.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847794>

Question 817

The 30-day forward exchange rate is .01073033 dollars per yen. If this forward rate represents a per year discount of 2.5% from the current spot rate, what is the current spot exchange rate?

- A) .01073033 dollars per yen
- B) .01257754 dollars per yen
- C) .01329684 dollars per yen
- D) .01093833 dollars per yen

Answer: <https://biology-forums.com/index.php?topic=1849561>

Question 818

Examples of uses of cash include

- A) paying cash dividends to stockholders.
- B) borrowing an additional amount using a secured loan.
- C) selling machinery.
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=1847901>

Question 819

Shareholder selection committees select potential board of director nominees ensuring that board members will monitor management sufficiently to protect shareholder interests.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847563>

Question 820

The return on the market portfolio is currently 12%. Mobile Phone Corporation stockholders require a rate of return of 30% and the stock has a beta of 3.2. According to CAPM, determine the risk-free rate.

- A) 9.80%
- B) 6.50%
- C) 4.64%
- D) 3.82%

Answer: <https://biology-forums.com/index.php?topic=1848309>

Question 821

Financing with new common stock is generally more costly than financing with retained earnings due to increasing tax rates.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848608>

Question 822

Why would a convertible bond increase much more in value than a bond that is not convertible?

Answer: <https://biology-forums.com/index.php?topic=1848338>

Question 823

Theoretically, market values of assets are better for evaluating the creation of shareholder wealth than accounting numbers, but accounting numbers are used because they are more readily available.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847926>

Question 824

If the price of apples is on the vertical axis and the quantity of apples demanded is on the horizontal axis, the slope between two points on the line describing the relationship between price and quantity is

- A) the change in price multiplied by the change in quantity.
- B) the change in price divided by the change in quantity.

C) the change in quantity divided by the change in price.

D) price divided by quantity.

Answer: <https://biology-forums.com/index.php?topic=1849866>

Question 825

Quantum, Inc. declared a \$2 per share dividend on October 1. The date of record is October 20th, the ex-dividend date is October 18th, and the payment date is October 31st. Mitchell owns a share of stock on October 1. Mitchell sells his share to Gene on October 18th, Gene sells the share to Dimitri on October 20th, and Dimitri sells the share to Hank on October 30th. Who will receive the dividend?

A) Mitchell

B) Gene

C) Dimitri

D) Hank

Answer: <https://biology-forums.com/index.php?topic=1849220>

Question 826

Another name for an asset's expected rate of return is holding-period return.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848204>

Question 827

Potential applications of the break-even model include

A) replacement for time-adjusted capital budgeting techniques.

B) pricing policy.

C) optimizing the cash-marketable securities position of a firm.

D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=1849011>

Question 828

The price elasticity of demand depends on the

A) proportion of consumers' budgets spent on the good.

B) number of available substitutes.

C) extent to which the commodity is a luxury.

D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=1850178>

Question 829

The less-risky investment is always the more desirable choice.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848954>

Question 830

High Tech Corp. cut its research and development budget in 2010 by \$4,000,000 in order to improve its cash flow for the year. Which of the following statements is MOST correct?

A) The stock price will likely increase because the value of stock is based on reported cash flow.

B) The stock price may decrease because investors may predict that future cash flows will decrease due to the lack of innovation and new products.

C) The change will have no impact on stock price because the company's profits will not change in 2010.

D) The stock price will increase only if reported profits in 2010 are higher than profits reported in 2009.

Answer: <https://biology-forums.com/index.php?topic=1847599>

Question 831

You are considering an investment in a U.S. Treasury bond but you are not sure what rate of interest it should pay. Assume that the real risk-free rate of interest is 1.0%; inflation is expected to be 1.5%; the maturity risk premium is 2.5%; and, the default risk premium for AAA rated corporate bonds is 3.5%. What rate of interest should the U.S. Treasury bond pay?

A) 8.5%

B) 6.0%

C) 5.0%

D) 2.5%

Answer: <https://biology-forums.com/index.php?topic=1847797>

Question 832

If an old asset is sold for less than its book value, the resulting loss will save the company taxes, hence lowering the cost of the project.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848871>

Question 833

GHJ Inc. is investing in a major capital budgeting project that will require the expenditure of \$16 million. The money will be raised by issuing \$2 million of bonds, \$4 million of preferred stock, and \$10 million of new common stock. The company estimates its after-tax cost of debt to be 7%, its cost of preferred stock to be 9%, the cost of retained earnings to be 14%, and the cost of new common stock to be 17%. What is the weighted average cost of capital for this project?

- A) 12.20%
- B) 13.12%
- C) 13.75%
- D) 14.23%

Answer: <https://biology-forums.com/index.php?topic=1848672>

Question 834

A closely-held company whose owners are trying to maintain control would be less likely to pay dividends so that all earnings may be retained to finance future growth.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849126>

Question 835

If you compare the yield of a municipal bond with that of a negotiable certificate of deposit, what is the equivalent before-tax yield of the certificate of deposit if the municipal bond has a yield of 8% per year and the investor has a marginal tax rate of 28%?

- A) 8.28%
- B) 9.30%
- C) 10.24%
- D) 11.11%

Answer: <https://biology-forums.com/index.php?topic=1849698>

Question 836

Discretionary financing accounts include all of the following EXCEPT

- A) long-term debt.
- B) notes payable.
- C) accrued liabilities.
- D) common stock.

Answer: <https://biology-forums.com/index.php?topic=1849305>

Question 837

An investment banker assumes underwriting risk in both negotiated purchases and privileged subscriptions with standby agreements.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847733>

Question 838

All of the following will increase the discretionary financing needed EXCEPT

- A) decrease the net profit margin.
- B) decrease the dividend payout ratio.
- C) decrease the sales growth rate.
- D) decrease the spontaneous financing.

Answer: <https://biology-forums.com/index.php?topic=1849308>

Question 839

Blammo, Inc. has a target capital structure of 30% debt and 70% equity. The firm is planning to invest in a project that will necessitate raising new capital. New debt will be issued at a before-tax yield of 14%, with a coupon rate of 10%. The equity will be provided by internally generated funds so no new outside equity will be issued. If the required rate of return on the firm's stock is 22% and its marginal tax rate is 35%, compute the firm's cost of capital.

- A) 18.00%

- B) 18.13%
- C) 19.68%
- D) 15.55%

Answer: <https://biology-forums.com/index.php?topic=1848695>

Question 840

Which of the following factors would most likely be present if a company increases its dividend payout ratio significantly?

- A) A high debt/equity ratio (i.e., use of a large amount of financial leverage)
- B) A quick ratio that is significantly below the industry average
- C) Current shareholders cannot participate in a new offering and desire to maintain ownership control.
- D) The variability of expected future earnings decreases.

Answer: <https://biology-forums.com/index.php?topic=1849201>

Question 841

Given that short-term interest rates typically fluctuate less than long-term rates, interest rate risk is least for

- A) treasury bills.
- B) common stock.
- C) long-term government bonds.
- D) medium-term corporate bonds.

Answer: <https://biology-forums.com/index.php?topic=1849708>

Question 842

In 2014, the price of peanuts increased. In the market for peanut butter, this change lead to _____ and which therefore _____ the price of peanut butter and _____ the quantity of peanut butter.

- A) a decrease in the supply; increased; decreased
- B) an increase in supply; decreased; increased
- C) a decrease in demand; decreased; decreased
- D) an increase in demand; increased; increased

Answer: <https://biology-forums.com/index.php?topic=1850100>

Question 843

A corporation has annual sales of \$18 million, total assets of \$4 million, a debt ratio of 40%, depreciation expense of \$200,000, and a tax rate of 40%. The corporation's total stockholders' equity is equal to

- A) \$5,600,000.
- B) \$2,800,000.
- C) \$2,400,000.
- D) \$1,800,000.

Answer: <https://biology-forums.com/index.php?topic=1847882>

Question 844

The slope of a straight line increases as the numbers on the x-axis become larger.

Answer: <https://biology-forums.com/index.php?topic=1849892>

Question 845

Suppose Canon Inc. decided to invest 45 billion yen in developing and launching a new model of its digital camera, expecting that it will bring additional sales of 60 billion yen. The company has already invested 38 billion yen when the marketing department suddenly finds out that the introduction of a similar camera by Sony will reduce Canon's expected additional sales to 30 billion yen. The company's management is trying to decide whether to continue investing in the new product or close the project. Canon hires you as an economic consultant. So, think like an economist to help the company's management make their decision:

- a) At this point in time, what is Canon's marginal cost of introducing the new product?
- b) What is Canon's marginal benefit from introducing the new product?
- c) Will you advise Canon to finish the project and introduce the new product? Why or why not? What principles of economic thinking will help you analyze the situation and make the right choice?

Answer: <https://biology-forums.com/index.php?topic=1849808>

Question 846

Changes in which of the following shifts the supply curve of hamburgers?

- A) a rise in the price of soda, a complement for hamburgers
- B) new research that establishes a link between hamburgers and heart problems
- C) an increase in the price of meat used to produce hamburgers

D) an economy-wide decrease in income because of a long recession

Answer: <https://biology-forums.com/index.php?topic=1850041>

Question 847

Glacier Inc. preferred stock has a 5% stated dividend percentage, and a \$100 par value. What is the value of the stock if your required rate of return is 6% per year?

- A) \$83.33
- B) \$94.05
- C) \$100.00
- D) \$30.00

Answer: <https://biology-forums.com/index.php?topic=1848493>

Question 848

TellTrue Corporation has preferred stock which paid an annual dividend in 2009 of \$5 per share. TellTrue also has common stock which paid a dividend in 2009 of \$5. Which of the following statements is MOST correct concerning TellTrue stock?

- A) The price of the preferred stock should equal the price of the common stock since the dividends are the same.
- B) The price of the common stock could be higher than the price of the preferred stock if the common stock dividends are expected to grow in the future.
- C) The price of the preferred stock is expected to be higher than the price of the common stock because the required return on preferred stock is higher than the required return on common stock.
- D) If the required return on the preferred stock is the same as the required return on the common stock, then the price of preferred stock should equal the price of the common stock if markets are efficient.

Answer: <https://biology-forums.com/index.php?topic=1848550>

Question 849

Which of the following statements concerning the constant growth dividend valuation model is true?

- A) The required rate of return must exceed the growth rate.
- B) The dividend growth rate must be bigger than 8%.
- C) The growth rate must increase every year.
- D) The required rate of return must be equal to the growth rate for dividends.

Answer: <https://biology-forums.com/index.php?topic=1848542>

Question 850

A bond with a \$1,000 face value and a 10 percent annual coupon rate matures in 15 years.

- a. Determine the value of the bond to a friend of yours with a required rate of return of 13%.
- b. A zero coupon bond with similar risk is selling for \$180. The bond has a face value of \$1,000 and matures in 15 years. Your friend asks you which bond she should invest in, the zero coupon bond or the bond in part (a). Which bond do you recommend, and why? Assume the market price of the bond in part (a) is \$820.

Answer: <https://biology-forums.com/index.php?topic=1848403>

Question 851

The expected yield on junk bonds is higher than the yield on AAA-rated bonds because of the higher default risk associated with junk bonds.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848324>

Question 852

Discretionary financing needed (DFN) is equal to projected total assets minus projected total liabilities minus projected owners' equity.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849294>

Question 853

You are analyzing the purchase of new equipment. Since you are not an expert on this type of equipment, you hire a consulting firm to make recommendations. The consultant charged you \$1,500 and recommended the purchase of the latest model from ACME Corp. of America. The equipment costs \$80,000, and it will cost another \$10,000 to modify it for special use by your firm. The equipment will be depreciated on a straight-line basis over six years with no salvage value. You expect the equipment will be sold after three years for \$28,000. Use of the equipment will require an increase in your company's net working capital of \$4,000, but this \$4,000 will be recovered at the end of year three. The use of the equipment will have no effect on revenues, but it is expected to save the firm \$50,000 per year in before-tax operating costs. Your company's marginal tax rate is 35%. What is the initial outlay required to fund this project?

- A) \$80,000
- B) \$84,000

C) \$90,000

D) \$94,000

Answer: <https://biology-forums.com/index.php?topic=1848898>

Question 854

An example of the growth factor in common stock is

A) acquiring a loan to fund an investment in Asia.

B) retaining profits in order to reinvest into the firm.

C) issuing new stock to provide capital for future growth.

D) two strong companies merging together to increase their economy of scale.

Answer: <https://biology-forums.com/index.php?topic=1848554>

Question 855

Accounting information is used in financial ratio analysis because it is theoretically the best data to guide financial decision-making.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847932>

Question 856

Mark Zuckerberg believes everyone in the world should have Internet access.

A) This is a positive statement and is not in the social interest if the marginal benefit of Internet access exceeds the marginal cost.

B) This is a positive statement and is not in the social interest if the marginal cost of Internet access exceeds the marginal benefit.

C) This is a normative statement and is not in the social interest if the marginal benefit of Internet access exceeds the marginal cost.

D) This is a normative statement and is not in the social interest if the marginal cost of Internet access exceeds the marginal benefit.

Answer: <https://biology-forums.com/index.php?topic=1849795>

Question 857

If the interest rate is positive, then the future value of an annuity due will be greater than the future value of an ordinary annuity.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848099>

Question 858

An increase in subway fares in New York City will boost your expenditures on subway rides if

A) the supply of subway rides is elastic.

B) the supply of subway rides is inelastic.

C) your demand for subway rides is elastic.

D) your demand for subway rides is inelastic.

Answer: <https://biology-forums.com/index.php?topic=1850165>

Question 859

When we choose a particular option, we must give up alternative options. The highest-valued alternative forgone is the _____ of the option chosen.

A) opportunity cost

B) comparative advantage

C) nonmonetary cost

D) absolute advantage

Answer: <https://biology-forums.com/index.php?topic=1849916>

Question 860

The cash budget consists of all the following factors EXCEPT

A) cash receipts.

B) cash disbursements.

C) new financing needed.

D) net income.

Answer: <https://biology-forums.com/index.php?topic=1849372>

Question 861

Market efficiency implies which of the following?

A) book value = intrinsic value

B) market value = intrinsic value

- C) book value = market value
- D) liquidation value = book value

Answer: <https://biology-forums.com/index.php?topic=1848371>

Question 862

All of the following are income statement items EXCEPT

- A) accrued expenses.
- B) depreciation expense.
- C) cost of goods sold.
- D) interest expense.

Answer: <https://biology-forums.com/index.php?topic=1847839>

Question 863

Stock W has an expected return of 12% with a standard deviation of 8%. If returns are normally distributed, then approximately two-thirds of the time the return on stock W will be

- A) between 12% and 20%.
- B) between 8% and 12%.
- C) between -4% and 28%.
- D) between 4% and 20%.

Answer: <https://biology-forums.com/index.php?topic=1848216>

Question 864

The cost of a particular source of capital (debt, preferred stock, common stock) is equal to the investor's required rate of return after adjusting for the effects of both flotation costs and corporate taxes.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848597>

Question 865

Determine the effective annualized cost of forgoing the trade discount on terms 2/15 net 65.

- A) 11.30%
- B) 14.69%
- C) 32.6%
- D) 48.98%

Answer: <https://biology-forums.com/index.php?topic=1849743>

Question 866

A company calculates its discretionary financing needed and determines this amount of capital cannot be raised at a reasonable cost. Which of the following would reduce the amount of discretionary financing needed?

- A) reduce the company's net profit margin
- B) reduce the company's sales growth rate
- C) increase the company's dividend payout ratio
- D) increase the proportion of the company's sales that are made on credit

Answer: <https://biology-forums.com/index.php?topic=1849303>

Question 867

Smith Corporation has earned a return on capital invested of 10% for the past two years, but an investment analyst reviewing the company has stated the company is not creating shareholder value. This may be due to the fact that

- A) the risk-free rate of interest is 3%.
- B) the corporation's inventory turnover is high.
- C) investors' required rate of return is 8%.
- D) investors' required rate of return is 12%.

Answer: <https://biology-forums.com/index.php?topic=1847970>

Question 868

Free cash flows represent the benefits generated from accepting a capital-budgeting proposal.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848705>

Question 869

Most stocks have betas between

- A) -1.00 and 1.00.
- B) 0.00 and 1.00.
- C) 0.60 and 1.60.
- D) 1.00 and 2.00.

Answer: <https://biology-forums.com/index.php?topic=1848263>

Question 870

If students' expenditures on airline travel increase as a consequence of more heavily discounted fares, students' demand for airline travel must be

- A) income elastic.
- B) income inelastic.
- C) price elastic.
- D) price inelastic.

Answer: <https://biology-forums.com/index.php?topic=1850169>

Question 871

How does opportunity cost affect an investor's required rate of return?

Answer: <https://biology-forums.com/index.php?topic=1848318>

Question 872

Studio 55, Inc. has an issue of preferred stock that pays a dividend of \$4.00. The preferred stockholders require a rate of return on this stock of 9%. At what price should the preferred stock sell for? Round off to the nearest \$0.10.

- A) \$36.00
- B) \$44.40
- C) \$62.50
- D) \$88.80

Answer: <https://biology-forums.com/index.php?topic=1848491>

Question 873

A situation in which some resources are NOT fully utilized is represented in a production possibilities frontier diagram by

- A) any point on either the horizontal or the vertical axis.
- B) the midpoint of the production possibilities frontier.
- C) a point outside the production possibilities frontier.
- D) a point inside the production possibilities frontier.

Answer: <https://biology-forums.com/index.php?topic=1849906>

Question 874

You have a choice between investing in a corporate bond or a municipal bond. The corporate bond has an annual yield of 10 percent, while the municipal bond has an annual yield of 7 percent. At what tax rate would you be indifferent between buying the corporate bond or the municipal bond?

Answer: <https://biology-forums.com/index.php?topic=1849716>

Question 875

A sales tax is imposed on the sellers of gasoline. This tax shifts

- A) the supply of gasoline curve leftward.
- B) the supply of gasoline curve rightward.
- C) the demand for gasoline curve leftward.
- D) both the supply curve of gasoline and demand curve for gasoline leftward.

Answer: <https://biology-forums.com/index.php?topic=1850325>

Question 876

Assuming no corporate taxes, the independence hypothesis suggests that a firm's weighted average cost of capital will

- A) remain constant regardless of capital structure because the cost of debt and the cost of equity are the same.
- B) remain constant because the cost of equity will be increasing as the amount of debt increases due to the increased risk.
- C) increase proportionally with the increase in the amount of debt a firm uses.
- D) decrease proportionally with the increase in the amount of debt a firm uses.

Answer: <https://biology-forums.com/index.php?topic=1849090>

Question 877

The current direct quote in New York is .01075 dollars per yen. Suppose the current direct quote in Tokyo is 91 yen per dollar. What is the appropriate

indirect quote in New York? What will arbitrageurs do to eliminate the differential rates in these markets?

Answer: <https://biology-forums.com/index.php?topic=1849572>

Question 878

Consumers can use either natural gas or heating oil to warm their houses. Suppose the price of natural gas increases. Use a demand and supply diagram to show the impact of the higher price of natural gas on the market for home heating oil.

Answer: <https://biology-forums.com/index.php?topic=1850115>

Question 879

Fielding Wilderness Outfitters had projected its sales for the first six months of 2010 to be as follows:

Jan.\$250,000 April\$300,000

Feb.\$340,000 May\$350,000

Mar.\$280,000 June\$380,000

Cost of goods sold is 60% of sales. Purchases are made and paid for two months prior to the sale. 40% of sales are collected in the month of the sale, 40% are collected in the month following the sale, and the remaining 20% in the second month following the sale. Total other cash expenses are \$40,000/month. The company's cash balance as of March 1st, 2010 is projected to be \$40,000, and the company wants to maintain a minimum cash balance of \$15,000. Excess cash will be used to retire short-term borrowing (if any exists). Fielding has no short-term borrowing as of March 1st, 2010. Assume that the interest rate on short-term borrowing is 1% per month. What is Fielding's projected total receipts (collections) for April?

- A) \$124,000
- B) \$180,000
- C) -\$4,000
- D) \$36,000

Answer: <https://biology-forums.com/index.php?topic=1849368>

Question 880

Advantages of private placements do NOT include which of the following?

- A) more financing flexibility
- B) lower flotation costs
- C) investor protection through extensive regulation
- D) funds which are available more quickly than through a public offering

Answer: <https://biology-forums.com/index.php?topic=1847765>

Question 881

Tillamook Farms invests in a new kind of frozen dessert called polar cream that becomes very popular. So many new customers come to the store that the sales of existing ice cream products are increased. The extra sales revenue

- A) should not be counted as incremental revenue for the polar cream project because the sales come from existing products.
- B) are synergistic effects that should be counted as incremental revenues for the polar cream project.
- C) are cannibalized sales that should be excluded from the analysis.
- D) should be included in the analysis, but not the cost of the ice cream that is sold as that is a recurring expense.

Answer: <https://biology-forums.com/index.php?topic=1848857>

Question 882

All else equal, an increase in beta results in

- A) an increase in the cost of retained earnings.
- B) an increase in the cost of newly issued common stock.
- C) an increase in the after-tax cost of debt.
- D) an increase in the cost of common equity, whether or not the funds come from retained earnings or newly issued common stock.

Answer: <https://biology-forums.com/index.php?topic=1848642>

Question 883

Which of the following forms of business organization has the greatest ability to attract new capital?

- A) sole proprietorship
- B) corporation
- C) general partnership
- D) limited partnership

Answer: <https://biology-forums.com/index.php?topic=1847661>

Question 884

If external financing needed cannot be obtained due to poor market conditions, a firm could reduce the amount needed by increasing its retention ratio.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849300>

Question 885

What practical problems are encountered in using the CAPM to estimate common equity capital cost?

Answer: <https://biology-forums.com/index.php?topic=1848656>

Question 886

Expected dividends and share repurchases are the cash flow that underlies stock valuation.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849117>

Question 887

Rogue Industries reported the following items for the current year: Sales = \$3,000,000; Cost of Goods Sold = \$1,500,000; Depreciation Expense = \$170,000; Administrative Expenses = \$150,000; Interest Expense = \$30,000; Marketing Expenses = \$80,000; and Taxes = \$300,000. Rogue's gross profit is equal to

- A) \$770,000.
- B) \$1,070,000.
- C) \$1,100,000.
- D) \$1,500,000.

Answer: <https://biology-forums.com/index.php?topic=1847828>

Question 888

Common stockholders' equity equals common stock issued minus treasury stock.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847856>

Question 889

In the market for chocolate chip cookies, if the demand decreases while the supply increases, the price definitely falls but the quantity might increase, decrease, or remain the same.

Answer: <https://biology-forums.com/index.php?topic=1850124>

Question 890

Your company buys supplies on credit terms of 2/10 net 45. Suppose the company makes a purchase of \$20,000 today. Which of the following payment options makes the most sense as a general rule?

- A) Pay the bill as soon as possible to keep the supplier happy.
- B) Pay the bill on day 45 due to the time value of money.
- C) Pay the bill on day 10 to get the discount.
- D) Either pay the bill on day 10 to get the discount, or wait until day 45.

Answer: <https://biology-forums.com/index.php?topic=1849471>

Question 891

You are in charge of one division of Yeti Surplus Inc. Your division is subject to capital rationing. Your division has 4 indivisible projects available, detailed as follows:

Project Initial Outlay IRR NPV

12 million 18% 2,500,000

21 million 15% 950,000

31 million 10% 600,000

43 million 9% 2,000,000

If you must select projects subject to a budget constraint of 5 million dollars, which set of projects should be accepted so as to maximize firm value?

- A) Projects 1, 2 and 3
- B) Project 1 only
- C) Projects 1 and 4
- D) Projects 2, 3 and 4

Answer: <https://biology-forums.com/index.php?topic=1848807>

Question 892

A U.S.-based multinational corporation (MNC) currently has an investment portfolio that includes Japanese securities valued at 10,000,000 yen. The company also owes its Japanese suppliers 12,000,000 yen. Which of the following statements is MOST correct?

- A) The MNC is not exposed to exchange rate risk because it holds both assets and liabilities denominated in yen.

- B) The MNC will be exposed to exchange rate losses if the yen declines in value relative to the dollar.
C) The MNC will be exposed to exchange rate losses if the yen increases in value relative to the dollar.
D) The MNC can avoid exchange rate risk by paying its Japanese liabilities with dollars.

Answer: <https://biology-forums.com/index.php?topic=1849605>

Question 893

Variable costs include all of the following EXCEPT

- A) property taxes.
B) direct labor.
C) sales commissions.
D) annual rent.

Answer: <https://biology-forums.com/index.php?topic=1849009>

Question 894

Premium Pie Company needs to purchase a new baking oven to replace an older oven that requires too much energy to run. The industrial size oven will cost \$1,200,000. The oven will be depreciated on a straight-line basis over its six-year useful life. The old oven cost the company \$800,000 just four years ago. The old oven is being depreciated on a straight-line basis over its expected ten-year useful life. (That is, the old oven is expected to last six more years if it is not replaced now.) Due to changes in fuel costs, the old oven may only be sold today for \$100,000. The new oven will allow the company to expand, increasing sales by \$300,000 per year. Expenses will also decrease by \$50,000 per year due to the more energy efficient design of the new oven. Premium Pie Company is in the 40% marginal tax bracket and has a required rate of return of 10%.

a. Calculate the net present value and internal rate of return of replacing the existing machine

b. Explain the impact on NPV of the following:

- i. Required rate of return increases
ii. Operating costs of new machine are increased
iii. Existing machine sold for less

Answer: <https://biology-forums.com/index.php?topic=1848928>

Question 895

Underemployment is a term used to describe hiring employees who work for a designated foreman or team leader. In this sense they are employed under a specific individual.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847575>

Question 896

Prepare a balance sheet using the information given below. Make sure to identify current assets, net fixed assets, total assets, current liabilities, long-term debt, total equity, and total liabilities and equity.

Gross fixed assets \$40,000
Cash \$18,000
Other assets \$5,000
Accumulated depreciation \$30,000
Common stock \$43,000
Short-term notes payable \$12,000
Accounts payable \$35,000
Inventories \$122,000
Retained earnings \$100,000
Accounts receivable \$60,000
Long-term notes payable \$10,000
Long-term bonds payable \$15,000
Sales \$300,000
Cost of goods sold \$150,000
Depreciation expense \$3,000

Answer: <https://biology-forums.com/index.php?topic=1847884>

Question 897

Messenger, Inc. bonds have a 4% coupon rate with semiannual coupon payments and a \$1,000 par value. The bonds have 11 years until maturity, and sell for \$925. What is the current yield for Messenger's bonds?

- A) 2.16%
B) 3.45%
C) 4.32%
D) 5.52%

Answer: <https://biology-forums.com/index.php?topic=1848432>

Question 898

A bond issued by Liberty, Inc. 10 years ago has a coupon rate of 8% and a face value of \$1,000. The bond will mature in 15 years. What is the value to an investor with a required return of 12.5%?

- A) \$800
- B) \$750.86
- C) \$658.94
- D) \$701.52

Answer: <https://biology-forums.com/index.php?topic=1848389>

Question 899

The procedure by which significant changes may be made to a partnership, such as admission of a new partner or termination of the partnership, are governed by each state so no partnership agreement is needed.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847638>

Question 900

Common stockholders may use financial ratios to monitor manager actions to help lessen agency problems.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847931>

Question 901

For a project with multiple sign reversals in its cash flows, the net present value can be the same for two entirely different discount rates.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848729>

Question 902

Accrued wages and accrued taxes are considered to be

- A) permanent sources of financing because companies must always pay wages and taxes.
- B) spontaneous sources of unsecured short-term financing.
- C) secured sources of short-term financing.
- D) current assets.

Answer: <https://biology-forums.com/index.php?topic=1849424>

Question 903

Bristol Boats, Inc. reports sales of \$4,000,000, variable costs of \$500,000, fixed operating costs of \$1,250,000, and interest expense of \$350,000. The corporation's EBIT is \$3,250,000 and its marginal tax rate is 30%. If the corporation is able to increase its sales by 25%, then

- A) its EBIT will increase by 25% and its EPS will increase by 25%.
- B) its EBIT will increase by more than 25% and its EPS will increase by less than 25%.
- C) its EBIT and EPS will both increase, but less than 25% due to fixed costs and taxes.
- D) its EBIT will increase by more than 25% and its EPS will increase by more than the percentage increase in EBIT.

Answer: <https://biology-forums.com/index.php?topic=1849052>

Question 904

An increase in price results in increase in supply but not an increase in the quantity supplied.

Answer: <https://biology-forums.com/index.php?topic=1850122>

Question 905

In perfect capital markets there

- A) is no informational content assigned to a particular dividend policy.
- B) are no income taxes.
- C) are no flotation costs.
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=1849174>

Question 906

Cash management system objectives include

- A) maintaining sufficient cash to meet disbursement needs.
- B) maintaining idle cash balances at "doomsday event" levels.

C) maintaining accounts payable balances at zero by early bill payment.

D) All of the above are objectives of the system.

Answer: <https://biology-forums.com/index.php?topic=1849672>

Question 907

An increase in flotation costs will most likely result in which of the following?

A) smaller dividend payments so that less external equity financing is needed

B) larger dividend payments so shareholders are able to earn their required returns

C) larger dividend payments to offset higher taxes paid by investors

D) no change in dividend policies because flotation costs are paid by purchasers of common stock

Answer: <https://biology-forums.com/index.php?topic=1849170>

Question 908

Jenny's weekly income increases from \$500 to \$650. As a result, she goes out for dinner one day a week instead of one day every other week. What is Jenny's income elasticity of demand for restaurant dinners?

Answer: <https://biology-forums.com/index.php?topic=1850205>

Question 909

Nike Corp. buys on 3/10, net 30 days. What is the nominal cost of interest if Nike does not take advantage of the trade discount offered? Assume a 360-day year.

A) 12.0%

B) 22.3%

C) 55.7%

D) 66.3%

Answer: <https://biology-forums.com/index.php?topic=1849497>

Question 910

Concentric Corporation has 10 million shares of stock outstanding. Concentric's after-tax profits are \$140 million and the corporation's stock is selling at a price-earnings multiple of 18, for a stock price of \$252 per share. Concentric's management issues a 40% stock dividend. What is the effect on an investor who owns 100 shares of Concentric before the dividend if Concentric's price-earnings multiple remains the same after the dividend is paid?

A) The investor will own 140 shares worth \$25,200.

B) The investor will own 140 shares worth \$35,280.

C) The investor will own 100 shares worth \$25,200.

D) The investor will own 100 shares worth \$35,280.

Answer: <https://biology-forums.com/index.php?topic=1849236>

Question 911

Agri-Industries purchased some agricultural land at the edge of a large metropolitan area for \$250,000 five years ago. In order to have the land classified as agricultural for property tax purposes, the company has been leasing the property to neighboring farmers. The before-tax return from leasing the property is \$12,000 per year. This company's corporate tax rate is 35 percent. If the company sells the land for \$400,000 today, what is the internal rate of return on this investment?

Answer: <https://biology-forums.com/index.php?topic=1848929>

Question 912

If two points on a line are $x = 2, y = 5$ and $x = 7, y = 10$, what is the slope of this line?

Answer: <https://biology-forums.com/index.php?topic=1849886>

Question 913

What does the law of one price say?

Answer: <https://biology-forums.com/index.php?topic=1849585>

Question 914

The A corporation has an operating profit margin of 20%, operating expenses of \$500,000, and financing costs of \$15,000. Therefore,

A) the corporation's gross profit margin is less than 20%.

B) the corporation's net profit margin is greater than 20%.

C) the corporation's gross profit margin is greater than 20%.

D) the corporation's gross profit margin is equal to 20% because gross profit is not affected by operating expenses or financing costs.

Answer: <https://biology-forums.com/index.php?topic=1847826>

Question 915

Business risk refers to the relative dispersion (variability) of a company's net income.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848980>

Question 916

You sell valuable artifacts from your household estate for \$200,000 and want to use the money to supplement your retirement. You receive the money on your 60th birthday, the day you retire. You want to withdraw equal amounts at the end of each of the next 25 years. What constant amount can you withdraw each year and have nothing remaining at the end of 20 years if you are earning 7% interest per year?

- A) \$17,162
- B) \$28,318
- C) \$37,574
- D) \$49,113

Answer: <https://biology-forums.com/index.php?topic=1848129>

Question 917

If the price of suntan lotion increases from \$6 to \$8 per bottle and quantity demanded decreases from 900,000 bottles to 845,000 bottles, using the midpoint method, what is the price elasticity of demand for suntan lotion?

Answer: <https://biology-forums.com/index.php?topic=1850199>

Question 918

Your firm is considering an investment that will cost \$750,000 today. The investment will produce cash flows of \$250,000 in year 1, \$300,000 in years 2 through 4, and \$100,000 in year 5. What is the investment's discounted payback period if the required rate of return is 10%?

- A) 3.33 years
- B) 3.16 years
- C) 2.67 years
- D) 2.33 years

Answer: <https://biology-forums.com/index.php?topic=1848784>

Question 919

For consumers, chocolate chip cookies and doughnuts are substitutes. So, an increase in the price of chocolate chip cookies will lead to a rightward shift in the demand curve for doughnuts.

Answer: <https://biology-forums.com/index.php?topic=1850119>

Question 920

Suppose the equilibrium price for soft drinks is \$1.00. If the current price in the soft drink market is \$1.25 each

- A) there will be a surplus of soft drinks.
- B) there will be a shortage of soft drinks.
- C) the supply curve of soft drinks will shift leftward.
- D) the demand curve for soft drinks will shift leftward.

Answer: <https://biology-forums.com/index.php?topic=1850083>

Question 921

General Motors raises money by selling a new issue of common stock. This transaction occurs in

- A) the secondary market.
- B) the capital market.
- C) the money market.
- D) the futures market.

Answer: <https://biology-forums.com/index.php?topic=1847706>

Question 922

In general, a project's free cash flows will fall in one of the following three categories: initial outlay, differential cash flows over the project's life, and the terminal cash flow.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848870>

Question 923

Accounting profits are used to make capital budgeting decisions because generally accepted accounting principles ensure that profits are the best

measure of a company's economic activity.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848835>

Question 924

Convertibility is a common feature of common stock; it allows the common stockholders to convert their common shares into preferred shares or into bonds.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848499>

Question 925

Describe the types of dividend policies that corporations frequently use. Which is most common? Why?

Answer: <https://biology-forums.com/index.php?topic=1849221>

Question 926

Which of the following actions would decrease a firm's liquidity?

- A) selling stock and reducing accounts payable
- B) selling machinery and using proceeds to retire bonds
- C) reducing accounts receivable and buying bonds
- D) selling bonds and holding proceeds in the cash account

Answer: <https://biology-forums.com/index.php?topic=1849397>

Question 927

Bill starts a retirement fund at age 21 and plans on depositing equal annual amounts on each birthday, starting at age 21, and ending at age 60. He wants to have \$2 million at age 60. John starts his fund on his 30th birthday. He wants to deposit equal annual amounts on each birthday starting on his 30th birthday and ending on his 60th birthday. John wants to have \$2 million at age 60. If the investment funds earn 10% per year, calculate the amounts the Bill and John respectively will have to save each year (rounded to the nearest dollar) to meet their goals. Comment on the difference.

Answer: <https://biology-forums.com/index.php?topic=1848154>

Question 928

As the price of cell phones fell during the last decade, consumers' total expenditures on cell phones increased. If the demand curve for cell phones did not shift, this fact means that the demand for cell phones

- A) must have shifted leftward.
- B) must be upward sloping.
- C) is elastic.
- D) is inelastic.

Answer: <https://biology-forums.com/index.php?topic=1850161>

Question 929

Give an example of an option to delay a project. Why might this be of value?

Answer: <https://biology-forums.com/index.php?topic=1848939>

Question 930

An acceptable project should have a net present value greater than or equal to zero and a profitability index greater than or equal to one.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848714>

Question 931

A corporate treasurer is typically responsible for cash management, credit management, and raising capital.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847617>

Question 932

The CBS news correspondent Bill Whitaker discussed the high level of unemployment among teens, especially during the summer months. In 2011, unemployment among the population as a whole was 9.1 percent, but among teens it was close to 24 percent. Many of these teens were hoping to get entry level jobs as small businesses. (Source: CBS news, June 4, 2011)

A minimum wage set above the equilibrium wage rate is called

- A) a price floor.
- B) a price ceiling.

- C) quota.
- D) subsidy.

Answer: <https://biology-forums.com/index.php?topic=1850301>

Question 933

The asked rate is also known as the selling rate or the offer rate.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849541>

Question 934

Over the relevant range of output, fixed costs remain unchanged.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848999>

Question 935

In a limited partnership at least one general partner must exist; that general partner has unlimited liability.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847639>

Question 936

What are the key decision variables at the firm's disposal for managing the level of the firm's accounts receivable balance?

Answer: <https://biology-forums.com/index.php?topic=1849752>

Question 937

Assume that you went to Las Vegas and hit the jackpot for \$5 million. Further assume that you were offered a choice to receive the \$5 million today, or receive it in two years. According to one of the principles of finance, which would you take?

- A) the \$5 million in two years because you would be afraid of spending it all right away
- B) the \$5 million in two years because it would be worth more than if you would receive it today
- C) You would be indifferent as to when you would receive the \$5 million.
- D) the \$5 million today because it would be worth more than if you would receive it in two years

Answer: <https://biology-forums.com/index.php?topic=1847606>

Question 938

Bensen Co. paid a dividend of \$5.25 on its common stock yesterday. The company's dividends are expected to grow at a constant rate of 8.5% indefinitely. If the required rate of return on this stock is 15.5%, compute the current value per share of Bensen Co. stock.

- A) \$81.38
- B) \$76.43
- C) \$56.23
- D) \$43.90

Answer: <https://biology-forums.com/index.php?topic=1848556>

Question 939

In order to reduce discretionary financing needed, a profitable company could decrease its dividend payout ratio.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849278>

Question 940

The Western State Company's common stock is expected to pay a \$2.00 dividend in the coming year. If investors require a 17% return and the growth rate in dividends is expected to be 8%, what will the market price of the stock be?

- A) \$11.76
- B) \$24.00
- C) \$23.11
- D) \$22.22

Answer: <https://biology-forums.com/index.php?topic=1848553>

Question 941

Capital structure is equal to financial structure minus current liabilities.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849068>

Question 942

When comparing a firm to its peers, why is it difficult to determine the industry to which the firm belongs? Why should you be careful when comparing a firm with industry norms?

Answer: <https://biology-forums.com/index.php?topic=1848057>

Question 943

Markets are best defined as

- A) arrangements where buyers and sellers get together to buy and sell.
- B) specific geographic locations where people get together to buy and sell.
- C) hypothetical constructs used to analyze how people form their tastes and preferences.
- D) places where people can inspect goods and services carefully.

Answer: <https://biology-forums.com/index.php?topic=1850009>

Question 944

A method for estimating a project's beta that attempts to identify publicly traded firms engage solely in the same business as the project is called the pure play method.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848955>

Question 945

If the demand curve for tacos is a downward sloping straight line, at which of the following prices is the demand the most elastic?

- A) a price of \$0.50 per taco
- B) a price of \$1.00 per taco
- C) a price of \$1.50 per taco
- D) There is not enough information given to determine at which price the demand is most elastic.

Answer: <https://biology-forums.com/index.php?topic=1850143>

Question 946

A limited liability company (LLC) is taxed like a partnership but provides limited liability for its owners, similar to a corporation.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847634>

Question 947

A direct quote is always denominated in U.S. dollars, since the dollar is the medium of exchange in international business.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849545>

Question 948

Which of the following is NOT a valid theory that attempts to explain the shape of the term structure of interest rates?

- A) the unbiased expectations theory
- B) the liquidity preference theory
- C) the market segmentation theory
- D) the Fisher Effect theory

Answer: <https://biology-forums.com/index.php?topic=1847800>

Question 949

Which of the following makes demand less elastic?

- A) the existence of many close substitutes for the good
- B) spending a large proportion of income on the good
- C) a short time elapsing since the product's price changed
- D) All of the above answers are correct.

Answer: <https://biology-forums.com/index.php?topic=1850177>

Question 950

Which of the following causes a firm's cost of capital (WACC) to differ from an investor's required rate of return on the company's common stock?

- A) the fact that the risk-free rate of interest has increased
- B) the incurrence of flotation costs when new securities are issued
- C) The market risk premium exceeds 12%.

D) None of the above the WACC and required return are the same.

Answer: <https://biology-forums.com/index.php?topic=1848595>

Question 951

If you wish to accumulate \$200,000 in the child's college fund after 18 years, and can invest at a 7.5% annual rate, how much must you invest at the end of each year if the first deposit is made at the end of the first year?

Answer: <https://biology-forums.com/index.php?topic=1848150>

Question 952

Consider the market for hot dogs. As long as the marginal benefit of consuming hot dogs is greater than the price of hot dogs

- A) people receive consumer surplus from eating hot dogs.
- B) the price of hot dogs will rise.
- C) the value of hot dogs will rise.
- D) there is no decreasing marginal benefit of eating hot dogs.

Answer: <https://biology-forums.com/index.php?topic=1850215>

Question 953

A consumer might consider in-line skates and elbow-pads to be

- A) products with upward sloping demand curves.
- B) unrelated goods.
- C) complements.
- D) substitutes.

Answer: <https://biology-forums.com/index.php?topic=1850035>

Question 954

In 2000 Jenson Inc. issued bonds with an 8 percent coupon rate and a \$1,000 face value. The bonds mature on March 1, 2025. If an investor purchased one of these bonds on March 1, 2012, determine the yield to maturity if the investor paid \$1,100 for the bond.

- A) 7%
- B) The yield to maturity is \$900 (\$1,000 interest less \$100 capital loss).
- C) The yield to maturity must be greater than 8% because the price paid for the bond exceeds the face value.
- D) 5.4%

Answer: <https://biology-forums.com/index.php?topic=1848415>

Question 955

An infinite-life replacement chain allows projects of different lengths to be compared.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848816>

Question 956

If preferred stock pays a \$5 annual dividend and sells for \$50, the cost of preferred stock financing is 10% since dividends are not tax deductible and preferred stock is sold without flotation costs.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848606>

Question 957

A rational investor will always prefer an investment with a lower standard deviation of returns, because such investments are less risky.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848212>

Question 958

A company borrows \$10,000 and puts the money into its checking account. This transaction will increase the company's current ratio if prior to the transaction the company's current ratio was

- A) equal to one.
- B) greater than one.
- C) less than one.
- D) greater than or less than one, but not equal to one.

Answer: <https://biology-forums.com/index.php?topic=1848043>

Question 959

For a retailer with inventory to sell, the acid-test ratio will be

- A) less than the current ratio, thus providing a more stringent measure of liquidity.
- B) greater than the current ratio, thus providing a more stringent measure of liquidity.
- C) greater than the current ratio, thus providing a less stringent measure of liquidity.
- D) unimportant because it doesn't include inventory.

Answer: <https://biology-forums.com/index.php?topic=1847975>

Question 960

Which type of value is shown on the firm's balance sheet?

- A) book value
- B) liquidation value
- C) market value
- D) intrinsic value

Answer: <https://biology-forums.com/index.php?topic=1848374>

Question 961

Explain why large and growing firms tend to choose the corporate form.

Answer: <https://biology-forums.com/index.php?topic=1847664>

Question 962

In the United States, the government coordinates most of the economic activity.

Answer: <https://biology-forums.com/index.php?topic=1850029>

Question 963

The primary weakness of EBIT-EPS analysis is that

- A) it ignores the implicit cost of debt financing.
- B) it double counts the cost of debt financing.
- C) it applies only to firms with large amounts of debt in their capital structure.
- D) it may only be used by firms that are profitable this year.

Answer: <https://biology-forums.com/index.php?topic=1849107>

Question 964

Backford Company just paid a dividend yesterday of \$2.25 per share. The company's stock is currently selling for \$60 per share, and the required rate of return on Backford Company stock is 16%. What is the growth rate expected for Backford Company dividends assuming constant growth?

- A) 9.47%
- B) 9.89%
- C) 10.87%
- D) 11.81%

Answer: <https://biology-forums.com/index.php?topic=1848549>

Question 965

The selection of a proper marketable-securities mix involves evaluation of certain criteria. What are these criteria and why are they important?

Answer: <https://biology-forums.com/index.php?topic=1849718>

Question 966

QRW, Inc. has a retained earnings balance of \$2,000,000. The company reported net income of \$600,000, sales of \$4,000,000, and has 200,000 shares of common stock outstanding. The company announced a dividend of \$2.00 per share. Therefore the company's dividend payout ratio is

- A) 66.7%.
- B) 50%.
- C) 20%.
- D) 10%.

Answer: <https://biology-forums.com/index.php?topic=1849121>

Question 967

If a rise in the price of good 1 decreases the quantity of good 2 demanded

- A) the cross elasticity of demand is negative.
- B) the cross elasticity of demand is positive.
- C) good 1 is an inferior good.
- D) good 2 is an inferior good.

Answer: <https://biology-forums.com/index.php?topic=1850191>

Question 968

The statement of cash flow explains the changes that took place in the firm's cash balance over the period of interest.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847890>

Question 969

The size disparity problem occurs when mutually exclusive projects of unequal size are being examined.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848814>

Question 970

In a world lacking property rights, it would be _____ to realize the gains from trade and there would be _____ specialization.

- A) easier; less
- B) easier; more
- C) harder; less
- D) harder; more

Answer: <https://biology-forums.com/index.php?topic=1850012>

Question 971

Other things equal, in imperfect markets a firm that maintains a stable dividend will have a lower required rate of return on its equity.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849195>

Question 972

The production possibilities frontier itself shows

- A) the maximum amount of resources available at any given time.
- B) combinations of goods and services that do not fully use available resources.
- C) the maximum rate of growth of output possible for an economy.
- D) the maximum levels of production that can be attained.

Answer: <https://biology-forums.com/index.php?topic=1849895>

Question 973

Which of the following statements about factoring is true?

- A) The firm, not the factor, bears the risk of collecting bad receivables in a factoring arrangement.
- B) Factoring involves the outright sale of a firm's accounts receivable to the factor.
- C) The borrowing firm is able to obtain a greater advance against inventory in a factoring arrangement than in a typical line of credit secured by accounts receivable.
- D) Factoring firms sell the receivables of other firms.

Answer: <https://biology-forums.com/index.php?topic=1849498>

Question 974

Of the following, which differs in meaning from the other three?

- A) systematic risk
- B) market risk
- C) undiversifiable risk
- D) asset-unique risk

Answer: <https://biology-forums.com/index.php?topic=1848262>

Question 975

Describe the three divergent views of dividend policy's effect on share price.

Answer: <https://biology-forums.com/index.php?topic=1849189>

Question 976

The implicit cost of debt takes into consideration the change in the cost of common equity brought on by using additional debt.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849085>

Question 977

The cost of trade credit varies directly with the size of the cash discount and inversely with the length of time between the end of the discount period and the final due date.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849457>

Question 978

Mountain Recreation, Inc. is considering a new product line. The company currently manufactures several lines of snow skiing apparel. The new products, insulated ski bikinis, are expected to generate sales of \$1.2 million per year for the next five years. They expect that during this five-year period, they will lose about \$150,000 each year in sales on their existing lines of longer ski pants. The new line will require no additional equipment or space in the plant and can be produced in the same manner as the apparel products. The new project will, however, require that the company spend an additional \$50,000 per year on insurance in case customers sue for frostbite. Also, a new marketing director would be hired to oversee the line at \$75,000 per year in salary and benefits. Because of the different construction of the bikinis, an increase in inventory of \$9,000 would be required initially. If the marginal tax rate is 35%, compute the incremental after-tax cash flows for years 1-5.

- A) \$634,500 per year
- B) \$625,000 per year
- C) \$601,250 per year
- D) \$537,500 per year

Answer: <https://biology-forums.com/index.php?topic=1848926>

Question 979

A bond will sell at a discount (below par value) if

- A) the market value of the bond is less than the present value of the discount rate of the bond.
- B) current market interest rates are moving in the same direction as bond values.
- C) investor's current required rate of return is above the coupon rate of the bond.
- D) the economy is booming.

Answer: <https://biology-forums.com/index.php?topic=1848450>

Question 980

When comparing inventory turnover ratios, other things being equal,

- A) a lower inventory turnover is preferred in order to keep inventory costs low.
- B) a higher inventory turnover is preferred to improve liquidity.
- C) higher inventory turnover results from old or obsolete inventory increasing the inventory balance on the balance sheet.
- D) higher inventory turnover results from an increase in the selling price of the product.

Answer: <https://biology-forums.com/index.php?topic=1847977>

Question 981

Stimpson Inc. preferred stock pays a \$.50 annual dividend. What is the value of the stock if your required rate of return is 10%?

- A) \$.05
- B) \$.50
- C) \$5.00
- D) \$50.00

Answer: <https://biology-forums.com/index.php?topic=1848486>

Question 982

AFB Corp. Declared a \$1.00 dividend on January 5th, with an ex-dividend date of January 19th, a record date of January 21st, and a payment date of March 15th. Doug purchased AFB stock on January 6th. Which of the following statements is MOST correct?

- A) Doug will not receive the dividend because he purchased the stock after the declaration date.
- B) Doug will not receive the dividend because he purchased the stock prior to the record date.
- C) Doug will receive the dividend if he still sells his stock on January 20th because he owned the stock on the ex-dividend date.
- D) Doug will receive the dividend if he still owns the stock on January 21st, even if he sells the stock before the payment date.

Answer: <https://biology-forums.com/index.php?topic=1849214>

Question 983

Money-market mutual funds are diversified portfolios of short-term, high-grade debt instruments.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849657>

Question 984

The category of securities with the highest historical risk premium is

- A) large company stocks.
- B) small company stocks.
- C) government bonds.
- D) small company corporate bonds.

Answer: <https://biology-forums.com/index.php?topic=1848234>

Question 985

A corporate treasurer is typically responsible for each of the following duties EXCEPT

- A) cash management.
- B) credit management.
- C) capital expenditures.
- D) cost accounting.

Answer: <https://biology-forums.com/index.php?topic=1847621>

Question 986

The Wall Street Journal bond quotes indicate that the net close for a bond with a \$1,000 par value is . The closing price for that bond was \$100.75.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848383>

Question 987

The wage rate paid by Walkman producers falls and at the same time the price of raw materials used in the production of Walkmans rises. You predict that the supply curve of Walkmans will

- A) shift either leftward or rightward.
- B) surely shift rightward.
- C) surely shift leftward.
- D) surely become steeper.

Answer: <https://biology-forums.com/index.php?topic=1850067>

Question 988

Which of the following features, or benefits, belong to a firm's common stockholders?

- A) limited liability
- B) ownership of the firm
- C) voting rights
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=1848515>

Question 989

The Rosewood Corporation established a line of credit with a local bank. The maximum amount that can be borrowed under the terms of the agreement is \$500,000 at a rate of 10 percent. A compensating balance averaging 15 percent of the loan is required. Prior to the agreement, Rosewood had maintained an account at the bank averaging \$25,000. Any additional funds needed for the compensating balance will also have to be borrowed at the 10 percent rate. If the firm needs \$280,000 for 6 months, what is the annual cost of the loan?

Answer: <https://biology-forums.com/index.php?topic=1849499>

Question 990

For many goods, the price elasticity of demand increases over time because

- A) people's incomes tend to increase over time.
- B) inflation increases all prices and incomes over time.
- C) the ability to find substitutes for a good whose price has risen increases over time.
- D) None of the above answers is correct.

Answer: <https://biology-forums.com/index.php?topic=1850174>

Question 991

Common examples of financial intermediaries include all of the following EXCEPT

- A) Venture Capital Firms.
- B) Life Insurance Companies.
- C) Pension Funds.

D) Mutual Funds.

Answer: <https://biology-forums.com/index.php?topic=1847703>

Question 992

Your firm is considering an investment that will cost \$920,000 today. The investment will produce cash flows of \$450,000 in year 1, \$270,000 in years 2 through 4, and \$200,000 in year 5. The discount rate that your firm uses for projects of this type is 11.25%. What is the investment's net present value?

- A) \$540,000
- B) \$378,458
- C) \$192,369
- D) \$112,583

Answer: <https://biology-forums.com/index.php?topic=1848787>

Question 993

The future value of a 10-year ordinary annuity is twice as much as the future value of an otherwise identical 5-year annuity.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848108>

Question 994

You purchase \$10,000 worth of supplies every 90 days and never take the trade discount of 2/10 net 30. How much could you save each (360-day) year if you took the discount?

Answer: <https://biology-forums.com/index.php?topic=1849749>

Question 995

The same underlying formula is used for computing both the future value and present value.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848075>

Question 996

Crimson Plumbing Supplies expects total sales of \$9,000,000 this year. Ten percent of the company's sales are paid in cash; credit sales are usually paid by check. The average check size is \$3,000. Second National Bank is offering the company a lock-box system. The fees are \$800 per month plus \$.60 per check. Short-term marketable securities are currently earning 8 percent per year. What reduction in check collection time is necessary for Carrollton Plumbing Supplies to be neither better nor worse off from adopting the proposed system? Use a 365-day year.

Answer: <https://biology-forums.com/index.php?topic=1849714>

Question 997

The yield to maturity on long-term bonds

- A) is equal to the current yield if the bond is selling for face value.
- B) is equal to the coupon rate on the bond.
- C) is equal to the net present value of the bond's future cash flows.
- D) is set by the indenture agreement and will not change over the life of the bond.

Answer: <https://biology-forums.com/index.php?topic=1848428>

Question 998

All of the following will make the break-even point increase, other things equal, EXCEPT

- A) fixed costs increase.
- B) the sales price per unit is decreased due to competition.
- C) variable costs increase due to higher direct labor cost.
- D) the number of units sold for the year decreased.

Answer: <https://biology-forums.com/index.php?topic=1849019>

Question 999

The trade-off associated with holding large amounts of cash and marketable securities is increased liquidity offset by a reduction in the overall rate of return.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849387>

Question 1000

The idea of comparative advantage implies that people or countries

- A) should specialize in the production of goods.
- B) can gain from trading.
- C) can consume at a point outside their production possibilities frontier.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=1850003>

Question 1001

If the price of a magazine increases from \$5 to \$7 and the quantity demanded of the magazines decreases from 10 million per month to 8 million per month, using the midpoint method, what is the price elasticity of demand? Show your work. Is the demand elastic, inelastic, or unit elastic?

Answer: <https://biology-forums.com/index.php?topic=1850201>

Question 1002

Operating leverage is the responsiveness of a firm's EBIT to changes in sales revenues.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849039>

Question 1003

For a well-diversified investor, an investment with an expected return of 10% with a standard deviation of 3% dominates an investment with an expected return of 10% with a standard deviation of 5%.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848213>

Question 1004

Financial ratios cannot be used to evaluate the creation of shareholder wealth because they are based on accounting numbers that reflect historical cost and not current market values.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847930>

Question 1005

Which of the following statements about project standing alone risk is true?

- A) It ignores the fact that much of the risk of a project will be diversified away as the project is combined with the firm's other projects.
- B) It ignores the cash flows that are associated with a project that occur beyond the payback period.
- C) It takes into consideration the effects of diversification of the firm's shareholders.
- D) It provides the best measure of project risk for a large, widely-held company.

Answer: <https://biology-forums.com/index.php?topic=1848964>

Question 1006

Which of the following is an advantage of the sole proprietorship?

- A) limited liability for its owners
- B) double taxation for its owners
- C) no significant legal requirements for starting the business
- D) easily transferred ownership

Answer: <https://biology-forums.com/index.php?topic=1847647>

Question 1007

Return on equity is driven by (1) the spread between the operating return on assets and the interest rate, and (2) changes in the debt ratio.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847942>

Question 1008

In the EOQ model the optimal ordering quantity is the quantity for which the sum of the costs of ordering and carrying inventory is minimized.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849756>

Question 1009

Explain the difference between (a) public offerings and private placements, (b) primary markets and secondary markets, (c) the money market and the capital market, and (d) organized security exchanges and over-the-counter markets.

Answer: <https://biology-forums.com/index.php?topic=1847726>

Question 1010

Discuss the similarities and differences between a line of credit and a revolving credit agreement.

Answer: <https://biology-forums.com/index.php?topic=1849511>

Question 1011

A company that forgoes the discount when credit terms are 2/10 net 60 due to insufficient cash flow would be better off to borrow funds and take the discount as long the company could borrow the funds at any rate

- A) less than 16.33%.
- B) less than 15.47%.
- C) less than 14.69%.
- D) less than 12.00%.

Answer: <https://biology-forums.com/index.php?topic=1849445>

Question 1012

Given the following annual net cash flows, determine the internal rate of return to the nearest whole percent of a project with an initial outlay of \$750,000.

YearNet Cash Flow

1\$500,000

2\$150,000

3\$250,000

- A) 9%
- B) 11%
- C) 13%
- D) 15%

Answer: <https://biology-forums.com/index.php?topic=1848769>

Question 1013

Sinkmaster Corp. settled a large lawsuit that caused earnings to be negative for the quarter. This quarterly loss was the first in 22 years. In addition, the company has a record of 48 consecutive quarters of dividend payments. Which of the following is correct?

- A) The company cannot pay dividends this quarter since the company had no earnings.
- B) The company can use cash generated through prior retention of earnings, or borrowed funds to pay the dividend.
- C) The company can omit the dividend; shareholders are always understanding about the riskiness of business.
- D) The clientele effect says that investor choice of investment vehicle is independent of dividend policy and therefore the payment/omission of the dividend is immaterial.

Answer: <https://biology-forums.com/index.php?topic=1849205>

Question 1014

In an efficient market, a stock with a standard deviation of returns of 12% could have a higher expected return than a stock with a standard deviation of 10% because the beta for the higher standard deviation stock could be lower than the beta for the lower standard deviation stock.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848292>

Question 1015

Krause Precision Tools, Inc. will use an estimated 700,000 small processors in its manufacturing process next year. The carrying cost of processor inventory is \$3.00 per unit and the cost of reordering processors is \$100 per order. What is Krause's economic ordering quantity for small processors?

- A) 6,340
- B) 6,831
- C) 7,118
- D) 7,300

Answer: <https://biology-forums.com/index.php?topic=1849775>

Question 1016

Using the percent of sales method and assuming that no excess capacity exists, a 20% increase in sales will result in

- A) a 20% increase in total assets.
- B) a 20% increase in total liabilities.
- C) a 20% increase in retained earnings.
- D) a 20% increase in the company's profit margin.

Answer: <https://biology-forums.com/index.php?topic=1849306>

Question 1017

Consider the following two projects:

Net Cash Flow Each Period

Initial Outlay 1234

Project A \$4,000,000 \$2,003,000 \$2,003,000 \$2,003,000 \$2,003,000

Project B \$4,000,000 \$0 \$11,000,000

- Calculate the net present value of each of the above projects, assuming a 14 percent discount rate.
- What is the internal rate of return for each of the above projects?
- Compare and explain the conflicting rankings of the NPVs and IRRs obtained in parts a and b above.
- If 14 percent is the required rate of return, and these projects are independent, what decision should be made?
- If 14 percent is the required rate of return, and the projects are mutually exclusive, what decision should be made?

Answer: <https://biology-forums.com/index.php?topic=1848830>

Question 1018

Scarcity applies to both the rich and the poor.

Answer: <https://biology-forums.com/index.php?topic=1849800>

Question 1019

Waterfront Solutions, Inc. paid a dividend of \$5.00 per share on its common stock yesterday. Dividends are expected to grow at a constant rate of 4% for the next two years, at which point the stock is expected to sell for \$56.00. If investors require a rate of return on Waterfront's common stock of 18%, what should the stock sell for today?

- \$50.22
- \$48.51
- \$44.76
- \$40.22

Answer: <https://biology-forums.com/index.php?topic=1848562>

Question 1020

Siskiyou, Inc. has total current assets of \$1,200,000; total current liabilities of \$500,000; and long-term assets of \$800,000. How much is the firm's Total Liabilities & Equity?

- \$2,500,000
- \$1,300,000
- \$2,000,000
- \$1,800,000

Answer: <https://biology-forums.com/index.php?topic=1847883>

Question 1021

Along a straight-line demand curve, as the price falls the

- demand becomes more elastic.
- demand becomes less elastic.
- elasticity of demand is constant.
- demand is always unitary elastic.

Answer: <https://biology-forums.com/index.php?topic=1850136>

Question 1022

Ribbon Industries reported sales of \$3 million and net income of \$400,000 for 2010. The retained earnings balance at the end of 2012 is \$7 million. Ribbon Industries has a dividend payout ratio of 30%. If sales are expected to increase by 25% next year, what will be the projected balance in retained earnings using the percent of sales method?

- \$7,280,000
- \$6,720,000
- \$7,350,000
- \$8,750,000

Answer: <https://biology-forums.com/index.php?topic=1849304>

Question 1023

Other things equal, higher net profit margins mean higher discretionary financing needed.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849295>

Question 1024

Financial ratios are useful for evaluating performance but should not be used for making financial projections.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847928>

Question 1025

Within the financial markets, explain what we mean by "private placements" and name the advantages and disadvantages.

Answer: <https://biology-forums.com/index.php?topic=1847773>

Question 1026

Hyper Retail Outlets sell goods on terms of net 40. The store's average monthly sales (all on credit) are \$70,000. Hyper pledges all of its receivables to the bank, which advances 80% of the face value of the receivables at a rate of 2.5% above prime. The bank also charges a 1% processing fee on all receivables pledged. Hyper borrows the full amount possible, and the current prime rate is 5%. What is the annual percentage rate (APR) of using this source of financing for one full year?

- A) 23.5%
- B) 22.5%
- C) 21.8%
- D) 19.1%

Answer: <https://biology-forums.com/index.php?topic=1849479>

Question 1027

Insurance companies invest in the "long-end" of the securities market by purchasing securities with longer maturities. In which of the following instruments would an insurance company be least likely to invest most of its assets?

- A) corporate stocks
- B) corporate bonds
- C) mortgages
- D) commercial paper

Answer: <https://biology-forums.com/index.php?topic=1847718>

Question 1028

Security markets are considered to be perfect when firms can issue securities at no cost and the investor incurs no brokerage commissions.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849141>

Question 1029

If the tax rate on dividends and the tax rate on capital gains are the same, then investors are indifferent to dividend policy.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849150>

Question 1030

Howton Mining expects to have credit sales of \$8,000,000 this year. First National Bank is offering Howton Mining a lock-box system for \$1,200 per month. Howton Mining estimates that the new lock-box system will reduce float by 4.5 days. What rate of return must Howton Mining earn on its marketable securities to make it worthwhile for the company to institute this lock-box system? Use a 365-day year.

Answer: <https://biology-forums.com/index.php?topic=1849713>

Question 1031

The difference between the capital gains tax rate and the income tax rate is an incentive for

- A) firms never to split their stock.
- B) firms to declare more stock dividends.
- C) firms to pay more earnings as dividends.
- D) firms to retain more earnings.

Answer: <https://biology-forums.com/index.php?topic=1849183>

Question 1032

Bonneau Sunglass Co. is considering the factoring of its receivables. The firm has credit sales of \$500,000 per month and has an average receivables balance of \$1,000,000 with 60-day credit terms. The factor has offered to extend credit equal to 85% of the receivables factored less interest on the loan at a rate of 2% per month. The 15% difference in the advance and face value of all receivables factored consists of a 2% factoring fee plus a 13% reserve, which the factor maintains. In addition, if Bonneau decides to factor its receivables, it will sell them all, so that it can reduce its credit costs by

\$2,000 a month.

- What is the cost of borrowing the maximum amount of credit available to Bonneau through the factoring agreement?
- What considerations other than cost should be accounted for by Bonneau in determining whether or not to enter the factoring agreement?

Answer: <https://biology-forums.com/index.php?topic=1849510>

Question 1033

Today is your 30th birthday and you must choose between two retirement options. The first option will provide you with 10 equal annual payments of \$100,000 beginning on your 65th birthday. The second option will provide you with one payment of \$1,000,000 on your 70th birthday. If the interest rate is 6 percent per year and you are assured of living to at least 80 years of age, which option is better?

Answer: <https://biology-forums.com/index.php?topic=1848158>

Question 1034

"Ceteris paribus" refers to the idea that if more than two variables are graphed, only one variable must be held constant.

Answer: <https://biology-forums.com/index.php?topic=1849893>

Question 1035

The current yield is greater than the coupon rate for a bond selling above par value.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848409>

Question 1036

The par value of a corporate bond indicates the payment that the issuer promises to make to the bondholder at maturity.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848352>

Question 1037

A firm's bond rating would be favorably affected if they have a low use of financial leverage (debt).

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848349>

Question 1038

A corporation sells securities to an investment banking firm on January 1st. The next day an international oil crisis causes stock prices to drop dramatically. The corporation is immune from the drop in price of its stock due to which function of the investment banking firm?

- hedging
- distributing
- reinsurance
- underwriting

Answer: <https://biology-forums.com/index.php?topic=1847749>

Question 1039

Limited liability for a corporation's common shareholders is a protective provision that aids the corporation in raising funds.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848507>

Question 1040

Common-sized balance sheets show each account as a percentage of total sales to help analysts in comparing companies of different sizes.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847843>

Question 1041

A firm's credit and collection policies usually include

- terms of sale, quality of customers, and collection of credit sales.
- average collection period, dollar value of aged receivables, and terms of sale.
- terms of sale and collection of credit sales.
- terms of sale, level of credit sales, and collection of credit sales.

Answer: <https://biology-forums.com/index.php?topic=1849738>

Question 1042

You just graduated and landed your first job in your new career. You remember that your favorite finance professor told you to begin the painless job of saving for retirement as soon as possible, so you decided to put away \$2,000 at the end of each year in a Roth IRA. Your expected annual rate of return on the IRA is 7.5%. How much will you accumulate at retirement after 40 years of investing? (Note: this may assume that you are even retiring early.)

- A) \$94,426
- B) \$247,921
- C) \$1,088,632
- D) \$454,513

Answer: <https://biology-forums.com/index.php?topic=1848142>

Question 1043

Joe likes peanut butter and jelly sandwiches for lunch. We can conclude that for Joe the cross elasticity of demand for peanut butter with respect to jelly is

- A) positive because jelly and peanut butter are substitutes.
- B) positive because jelly and peanut butter are complements.
- C) negative because jelly and peanut butter are substitutes.
- D) negative because jelly and peanut butter are complements.

Answer: <https://biology-forums.com/index.php?topic=1850198>

Question 1044

Liquidity refers to the ability to quickly convert an asset into cash without lowering the selling price.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847864>

Question 1045

Computing the change in long-term assets or net capital spending, it involves computing the change in net fixed assets and other long-term assets.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847924>

Question 1046

You inherit \$300,000 from your parents and want to use the money to supplement your retirement. You receive the money on your 65th birthday, the day you retire. You want to withdraw equal amounts at the end of each of the next 20 years. What constant amount can you withdraw each month and have nothing remaining at the end of 20 years if you are earning 7% interest compounded monthly?

- A) \$1,200
- B) \$1,829
- C) \$2,326
- D) \$2,943

Answer: <https://biology-forums.com/index.php?topic=1848130>

Question 1047

Welker Products sells small kitchen gadgets for \$15 each. The gadgets have a variable cost of \$4 per unit, and Welker Products' fixed operating costs are \$220,000 per year. Welker Products' capital structure includes 55% debt and 45% equity. Annual interest expense is \$25,000, and the corporate tax rate is 35%.

- a. Calculate the break-even point in units.
- b. If Welker Products sells 25,000 units, calculate the firm's EBIT and net income.
- c. If sales increase ten percent from 25,000 units to 30,000 units, estimate the firm's expected EBIT and net income.
- d. Does Welker Products use operating leverage and/or financial leverage? Explain.

Answer: <https://biology-forums.com/index.php?topic=1849066>

Question 1048

Marley Financial plans to sell \$50,000,000 of 120-day commercial paper, on which it expects to pay discounted interest at a rate of 5% per year. Dealer fees are expected to be \$30,000. The effective cost of credit to Marley Financial is

- A) 5.27%.
- B) 5.64%.
- C) 6.22%.
- D) 7.53%.

Answer: <https://biology-forums.com/index.php?topic=1849477>

Question 1049

Miller's preferred stock is selling at \$54 on the market and pays an annual dividend of \$4.20 per share.

- a. What is the expected rate of return on the stock?
b. If an investor's required rate of return is 9%, what is the value of the stock to that investor?
c. Considering the investor's required rate of return, does this stock seem to be a desirable investment?

Answer: <https://biology-forums.com/index.php?topic=1848583>

Question 1050

The current ratio of a firm would be decreased by which of the following?

- A) Land held for investment is sold for cash.
B) Equipment is purchased, financed by a long-term debt issue.
C) Inventories are sold for cash.
D) Inventories are sold on a long-term credit basis.

Answer: <https://biology-forums.com/index.php?topic=1847985>

Question 1051

Assume that a firm had such serious financial problems that it was about to be liquidated after a bankruptcy. All of the firm's assets are about to be sold in order to pay the following claims against the firm: bondholders, preferred stockholders, common stockholders, and federal income taxes. Of the claims mentioned, what priority would common stockholders have?

- A) first
B) second
C) third
D) fourth

Answer: <https://biology-forums.com/index.php?topic=1848512>

Question 1052

The Meacham Tire Company is considering two mutually exclusive projects with useful lives of 3 and 6 years. The after-tax cash flows for projects S and L are listed below.

Year Cash Flow S Cash Flow L

0 -\$60,000 -\$115,000

1 138,000 28,500

2 225,000 49,500

3 335,000 26,850

4 422,600

5 518,750

6 623,500

The required rate of return on these projects is 14 percent. What decision should be made? As part of your answer, calculate the NPV assuming a replacement chain for Project S, and also calculate the equivalent annual annuity for each project.

Answer: <https://biology-forums.com/index.php?topic=1848831>

Question 1053

A large corporation has annual sales revenues of \$6 billion. The corporation currently earns 2.25% on its money-market account. If the corporation can reduce its float by three days by making its billing and collection functions more efficient, the company's operating profits will increase by approximately

- A) \$3,069,863.
B) \$2,196,500.
C) \$1,350,000.
D) \$1,109,589.

Answer: <https://biology-forums.com/index.php?topic=1849707>

Question 1054

Which of the following transactions will decrease a corporation's retained earnings?

- A) The corporation declares and pays a \$2 per share cash dividend.
B) The company completes a 2 for 1 stock split.
C) The company pays a 20% stock dividend.
D) Both A and C

Answer: <https://biology-forums.com/index.php?topic=1849237>

Question 1055

Exchange-rate risk arises from the fact that the spot exchange rate on a future date is unknown today.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849597>

Question 1056

To say that "supply increases" for any reason, means there is a

- A) movement rightward along a supply curve.
- B) movement leftward along a supply curve.
- C) shift rightward in the supply curve.
- D) shift leftward in the supply curve.

Answer: <https://biology-forums.com/index.php?topic=1850061>

Question 1057

Which of the following accounts belongs in the equity section of a balance sheet?

- A) retained earnings
- B) cash
- C) long-term debt
- D) dividends

Answer: <https://biology-forums.com/index.php?topic=1847879>

Question 1058

A scatter diagram plots the value of one economic variable against time.

Answer: <https://biology-forums.com/index.php?topic=1849890>

Question 1059

You are considering an investment in Citizens Bank Corp. The firm has a beta of 1.6. Currently, U.S. Treasury bills are yielding 2.75% and the expected return for the S & P 500 is 14%. What rate of return should you expect for your investment in Citizens Bank?

- A) 11.15%
- B) 15.39%
- C) 16.75%
- D) 20.75%

Answer: <https://biology-forums.com/index.php?topic=1848312>

Question 1060

Under what circumstances does a firm violate the basic relationship underlying the percent of sales forecast method?

Answer: <https://biology-forums.com/index.php?topic=1849351>

Question 1061

The percent of sales method provides a more detailed plan for future financing needs than the cash budget because both pro forma income statements and balance sheets are used in the analysis.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849353>

Question 1062

Suppose you are working four nights per week at your courses and your grade point average is 3.5. You want a higher grade and decide to study an extra night each week. Your GPA now rises to 3.8. What is your marginal benefit from studying for one additional night a week?

Answer: <https://biology-forums.com/index.php?topic=1849798>

Question 1063

Company unique risk can be virtually eliminated with a portfolio consisting of approximately 20 securities.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848244>

Question 1064

A firm's cash position would most likely be hurt by

- A) decreasing excess inventory.
- B) establishing stricter (shorter) credit terms.
- C) retiring outstanding debt.
- D) increasing the net profit margin.

Answer: <https://biology-forums.com/index.php?topic=1849365>

Question 1065

Define float and its origins in the cash management process (that is, mail processing and transit).

Answer: <https://biology-forums.com/index.php?topic=1849721>

Question 1066

The prices for the National Gasworks Corporation for the second quarter of 2012 are given below. The price of the stock on April 1, 2012 was \$130. Find the holding period return for an investor who purchased the stock on April 1, 2012 and sold it the last day of June 2012.

Month End Price

April \$125.00

May 138.50

June 132.75

A) -4.2%

B) -3.7%

C) 2.1%

D) 3.7%

Answer: <https://biology-forums.com/index.php?topic=1848267>

Question 1067

The chief financial officer (CFO) is responsible for overseeing financial planning, corporate strategic planning, and controlling the firm's cash flow.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847619>

Question 1068

Give an example of an option to expand a project. Why might this be of value?

Answer: <https://biology-forums.com/index.php?topic=1848940>

Question 1069

Rogue Recreation, Inc. has normally distributed returns with an expected return of 15% and a standard deviation of 5%, while Lake Tours, Inc. has normally distributed returns with an expected return of 15% and a standard deviation of 15%. Which of the following is true?

A) Lake Tours' investors are not being adequately compensated for relevant risk.

B) Rogue Rec is likely to experience returns larger than those of Lake Tours.

C) Lake Tours is more likely to have negative returns than Rogue Rec.

D) Rational investors will prefer Lake Tours, Inc. over Rogue Recreation, Inc.

Answer: <https://biology-forums.com/index.php?topic=1848220>

Question 1070

Due to changes in regulatory requirements, the transactions costs associated with selling corporate securities increased by \$1 per share. This change will

A) cause the cost of capital to decrease.

B) cause the cost of capital to increase.

C) have no effect on the cost of capital because transactions costs are expensed immediately.

D) cause the cost of capital to decrease only if investors may be billed for part of the increase in transactions costs.

Answer: <https://biology-forums.com/index.php?topic=1848619>

Question 1071

The recent financial crises was exacerbated by

A) managers who overestimated risk and hence did not invest sufficient funds.

B) managers who underestimated the real risks of their decisions and borrowed excessively.

C) a lack of financial leverage that made U.S. firms less competitive in world markets.

D) extremely high interest rates in the United States that stifled investment.

Answer: <https://biology-forums.com/index.php?topic=1847602>

Question 1072

If you put \$2,000 in a savings account that yields 8% compounded semiannually, how much money will you have in the account in 20 years (rounded to nearest \$10)?

A) \$6,789

B) \$8,342

C) \$9,602

D) \$9,972

Answer: <https://biology-forums.com/index.php?topic=1848181>

Question 1073

If the cash flows of an accepted investment project are negatively correlated with the average cash flow of the firm's existing assets, then the company's total exposure to risk can decrease.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848951>

Question 1074

Increases in working capital needs should be included as part of the initial outlay of a project, but decreases in working capital for a project should not be considered because they are not guaranteed.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848880>

Question 1075

If a company offers a cash discount for early payment, this will most likely increase its cash conversion cycle since it will have to pay out more cash to its customers.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849440>

Question 1076

A company is going to issue a \$1,000 par value bond that pays a 7% annual coupon. The company expects investors to pay \$942 for the 20-year bond. The expected flotation cost per bond is \$42, and the firm is in the 34% tax bracket. Compute the following:

- a. the yield to maturity on the firm's bonds
- b. the firm's after-tax cost of existing debt
- c. the firm's after-tax cost of new debt

Answer: <https://biology-forums.com/index.php?topic=1848650>

Question 1077

The current ratio of a firm would equal its quick ratio whenever

- A) the firm has no inventory.
- B) the firm's inventory is equal to its other current assets.
- C) the firm's inventory is equal to its current liabilities.
- D) the firm's current ratio is equal to one.

Answer: <https://biology-forums.com/index.php?topic=1847986>

Question 1078

A sales tax imposed on sellers shifts the supply curve leftward for the taxed good because the

- A) tax is paid by the seller to the government and is, therefore, like a cost of production.
- B) tax is actually shifted entirely onto the buyer who can afford only a smaller supply.
- C) higher price causes entry into the market.
- D) tax shifts the demand curve leftward.

Answer: <https://biology-forums.com/index.php?topic=1850326>

Question 1079

Which of the following is NOT a definition of yield to maturity?

- A) discount rate that equates present value of future cash flows with a bond's price.
- B) investors' required rate of return on a bond investment.
- C) return that an investor will earn if they buy the bond for its market price and hold it until maturity.
- D) discount rate that equates present value of future cash flows with a bond's face value.

Answer: <https://biology-forums.com/index.php?topic=1848422>

Question 1080

Monthly cash receipts in the cash budget are typically made up of cash sales during the month and collections from credit sales from prior months.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849359>

Question 1081

Forecasts of revenues and their related expenses are the basis on which firms forecast their future financing needs.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849289>

Question 1082

Federal tax law is irrelevant to corporate dividend policy because dividends are not tax deductible.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849148>

Question 1083

In August 2004, Google first sold its common stock to the public at \$85 per share and raised \$1.76 billion. This is an example of

- A) a primary market transaction.
- B) a secondary market transaction.
- C) a venture capital firm transaction.
- D) a money-market transaction.

Answer: <https://biology-forums.com/index.php?topic=1847720>

Question 1084

What are the three important elements of asset valuation?

Answer: <https://biology-forums.com/index.php?topic=1848379>

Question 1085

A company with a AAA bond rating will command a higher interest rate on its bonds than a company with a lesser BBB bond rating.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848341>

Question 1086

The demand for computer chips is a downward sloping straight line. If there is an increase in the supply of computer chips, this change will

- A) increase the price elasticity of demand for computer chips.
- B) decrease the price elasticity of demand for computer chips.
- C) have no effect on the price elasticity of demand for computer chips.
- D) have an unpredictable effect on the price elasticity of demand for computer chips.

Answer: <https://biology-forums.com/index.php?topic=1850139>

Question 1087

Interest rate parity theory states that the forward premium or discount should be equal and opposite in sign to the difference in the national interest rates for securities of the same maturity.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849578>

Question 1088

The advantages of NPV are all of the following EXCEPT

- A) it can be used as a rough screening device to eliminate those projects whose returns do not materialize until later years.
- B) it provides the amount by which positive NPV projects will increase the value of the firm.
- C) it allows the comparison of benefits and costs in a logical manner through the use of time value of money principles.
- D) it recognizes the timing of the benefits resulting from the project.

Answer: <https://biology-forums.com/index.php?topic=1848773>

Question 1089

A significant disadvantage of the payback period is that it

- A) is complicated to explain.
- B) increases firm risk.
- C) does not properly consider the time value of money.
- D) provides a measure of liquidity.

Answer: <https://biology-forums.com/index.php?topic=1848783>

Question 1090

The value of a bond is equal to the present value of the bond's interest payments plus the present value of the bond's maturity value, all discounted at the bond's coupon rate.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848442>

Question 1091

Shackleford Corporation net income this year is \$800,000. The company generally retains 35% of net income for reinvestment. The company's common equity currently has a book value of \$5,000,000. They just paid a dividend of \$1.37, and the required rate of return on this stock is 12%. Compute the value of this stock if dividends are expected to continue growing indefinitely at the company's internal growth rate.

- A) \$22.61
- B) \$11.42
- C) \$15.63
- D) \$4.35

Answer: <https://biology-forums.com/index.php?topic=1848559>

Question 1092

You purchased one share of Sophia Enterprises common stock for \$30 today. If the stock pays a dividend of \$6.50 in one year, and sells for \$32.50 at that time, what will the dividend yield, growth rate, and total rate of return be for the year?

Answer: <https://biology-forums.com/index.php?topic=1848582>

Question 1093

By reducing its output compared to a competitive market, a monopoly leads to

- A) a more efficient use of resources.
- B) external benefits.
- C) external costs.
- D) a deadweight loss.

Answer: <https://biology-forums.com/index.php?topic=1850274>

Question 1094

A company's investment in accounts receivable is determined by the company's level of sales, percent of credit sales to total sales, and credit and collection policies.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849733>

Question 1095

The term structure of interest rates usually indicates that longer terms to maturity have higher expected returns.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847792>

Question 1096

An increase in the price of the cheese used to produce pizza shifts the supply curve of pizza _____ and shifts the demand curve for pizza _____.

- A) rightward; leftward
- B) leftward; leftward
- C) leftward; not at all
- D) not at all; leftward

Answer: <https://biology-forums.com/index.php?topic=1850063>

Question 1097

Which of the following represents the correct ordering of standard deviation of returns over the period 1926 to 2014 (from highest to lowest standard deviation of returns)?

- A) Treasury bills, long-term corporate bonds, long-term government bonds, common stocks
- B) common stocks, long-term government bonds, long-term corporate bonds, Treasury bills
- C) Treasury bills, long-term government bonds, long-term corporate bonds, common stocks
- D) Treasury bills, long-term government bonds, common stocks, long-term corporate bonds

Answer: <https://biology-forums.com/index.php?topic=1847785>

Question 1098

An independent project should be accepted if it

- A) produces a net present value that is greater than or equal to zero.
- B) produces a net present value that is greater than the equivalent IRR.

C) has only one sign reversal.
D) produces a profitability index greater than or equal to zero.
Answer: <https://biology-forums.com/index.php?topic=1848786>

Question 1099

Adventure Outfitter Corp. can sell common stock for \$27 per share and its investors require a 17% return. However, the administrative or flotation costs associated with selling the stock amount to \$2.70 per share. What is the cost of capital for Adventure Outfitter if the corporation raises money by selling common stock?

- A) 27.00%
- B) 18.89%
- C) 18.33%
- D) 17.00%

Answer: <https://biology-forums.com/index.php?topic=1848620>

Question 1100

A direct quote of \$1.6255 dollars to buy one U.K. pound corresponds to an indirect quote of .6152 pounds per one dollar.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849543>

Question 1101

Which of the following statements best represents the "Agency Problem"?

- A) Managers might attempt to benefit themselves in terms of salary and perquisites at the expense of shareholders.
- B) The agency problem results from the separation of management and the ownership of the firm.
- C) The agency problem may interfere with the implementation of maximizing shareholder wealth.
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=1847608>

Question 1102

LTM, Inc. has an issue of preferred stock whose par value is \$1,000. The preferred stock pays a 4.5% dividend. If investors require a 5.5% rate of return for these shares, what price should the preferred stock sell for?

- A) \$611.11
- B) \$508.33
- C) \$409.09
- D) \$818.18

Answer: <https://biology-forums.com/index.php?topic=1848490>

Question 1103

Assume that a firm issues a six-month note to purchase inventory. Which of the following is true if the current ratio before the purchase is 1.0?

- A) The firm's current ratio must decrease.
- B) The firm's quick ratio will stay the same.
- C) The firm's current ratio will increase.
- D) The firm's quick ratio might decrease.

Answer: <https://biology-forums.com/index.php?topic=1848039>

Question 1104

Which of the following statements about Generally Accepted Accounting Principles (GAAP) is NOT true?

- A) GAAP is a set of rule-based accounting standards established by the Financial Accounting Standards Board (FASB).
- B) GAAP sets out the standards, conventions, and rules that accountants must follow when preparing audited financial statements.
- C) GAAP is complex, providing more than 150 "pronouncements" as to how to account for different types of transactions.
- D) All of the statements above are true.

Answer: <https://biology-forums.com/index.php?topic=1847914>

Question 1105

Hershey's expects to sell \$2 million of its new candy bar, although \$200,000 of this amount would have been spent on its existing candy bar. The \$2 million is the appropriate cash inflow for the new candy bar project, while the \$200,000 will be counted against the return on the old candy bar.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848849>

Question 1106

The efficiency of foreign currency markets is assured, in large measure, by the process of arbitrageurs.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849532>

Question 1107

JPR Company's preferred stock is currently selling for \$28.00, and pays a perpetual annual dividend of \$2.00 per share. Underwriters of a new issue of preferred stock would charge \$3 per share in flotation costs. The firm's tax rate is 40%. Compute the cost of new preferred stock for JPR.

- A) 4.80%
- B) 7.14%
- C) 8.00%
- D) 9.15%

Answer: <https://biology-forums.com/index.php?topic=1848633>

Question 1108

The basic format of an income statement is

- A) Sales - Expenses = Profits.
- B) Income - Expenses = EBIT.
- C) Sales - Liabilities = Profits.
- D) Assets - Liabilities = Profits.

Answer: <https://biology-forums.com/index.php?topic=1847827>

Question 1109

Operating leverage is measured as the responsiveness of the firm's earnings before interest and taxes relative to fluctuations in sales.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849037>

Question 1110

A corporation announces a large increase in its annual dividend, but its stock price declines. This could result from

- A) residual dividend theory.
- B) bird-in-the-hand theory.
- C) perfect capital markets.
- D) MM's indifference theorem.

Answer: <https://biology-forums.com/index.php?topic=1849156>

Question 1111

Has looking beyond U.S. borders been a profitable experience for U.S. corporations?

Answer: <https://biology-forums.com/index.php?topic=1847669>

Question 1112

The CFO of Twine Enterprises expects sales to increase from \$8,000,000 in 2010 to \$12,000,000 in 2011. Current assets in 2010 are equal to \$5,000,000. Using the percent of sales method, projected current assets for 2011 are equal to

- A) \$5,500,000.
- B) \$7,083,333.
- C) \$9,000,000.
- D) \$7,500,000.

Answer: <https://biology-forums.com/index.php?topic=1849307>

Question 1113

Carrying inventory reduces the costs associated with periodic bad debt losses.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849753>

Question 1114

If you want to have \$3,575 in 29 months, how much money must you put in a savings account today? Assume that the savings account pays 12% and it is compounded monthly; round to nearest \$1.

- A) \$3,147
- B) \$3,008
- C) \$2,679
- D) \$2,438

Answer: <https://biology-forums.com/index.php?topic=1848185>

Question 1115

Spontaneous sources of funds refers to all of the below EXCEPT

- A) accruals.
- B) a bank loan.
- C) accounts payable.
- D) common stock.

Answer: <https://biology-forums.com/index.php?topic=1849328>

Question 1116

The expected return on a riskless asset is greater than zero due to

- A) an expected return for delaying consumption.
- B) an expected return for opportunity costs.
- C) an expected return for taxes.
- D) irrational investors who believe risk is always present.

Answer: <https://biology-forums.com/index.php?topic=1847584>

Question 1117

As production levels increase, fixed costs stay the same in total, but decrease on a per unit basis.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848990>

Question 1118

Financial ratios are used by personnel in marketing, human resources, and other groups within a firm, not just by the finance and accounting personnel.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848051>

Question 1119

Commercial paper is much more liquid than money-market mutual funds because commercial paper is available to only the most creditworthy corporations.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849659>

Question 1120

A firm's optimal capital structure occurs where?

- A) EPS are maximized, and WACC is minimized.
- B) Stock price is maximized, and EPS are maximized.
- C) Stock price is maximized, and WACC is maximized.
- D) WACC is minimized, and stock price is maximized.

Answer: <https://biology-forums.com/index.php?topic=1849095>

Question 1121

An inventory turnover ratio of 7.2 compared to an industry average of 5.1 is likely to indicate that

- A) the firm has higher sales than the industry average.
- B) the firm is selling a product mix that includes more high margin items.
- C) the firm is managing its inventory inefficiently.
- D) the firm's products are in inventory for fewer days before they are sold than is average for the industry.

Answer: <https://biology-forums.com/index.php?topic=1848030>

Question 1122

Finance theory suggests that the IRR criterion is the most favorable capital budgeting decision tool.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848818>

Question 1123

An expansion of the production possibilities frontier is

- A) called economic growth.

- B) proof that scarcity is not a binding constraint.
- C) a free gift of nature.
- D) something that has occurred only rarely in history.

Answer: <https://biology-forums.com/index.php?topic=1849987>

Question 1124

SNL has sales of \$2,250,000; a gross profit of \$825,000; total operating costs of \$620,000; income taxes of \$74,800; total assets of \$995,000; and interest expense of \$18,000. What is SNL's times-interest-earned ratio?

- A) 1.3
- B) 11.4
- C) 8.1
- D) 45.8

Answer: <https://biology-forums.com/index.php?topic=1848036>

Question 1125

Cash inflows come from

- A) purchase of marketable securities.
- B) purchase of fixed assets.
- C) credit sales.
- D) cash sales.

Answer: <https://biology-forums.com/index.php?topic=1849662>

Question 1126

According to the expectations theory, the actual dividend must equal the expected dividend, or else the stock price will decrease after the dividend amount is announced.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849128>

Question 1127

A project's standing alone risk allows for diversification within a sole firm.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848946>

Question 1128

The market value of a leveraged firm is equal to the market value of an unleveraged firm

- A) plus the present value of tax shields minus the present value of financial distress costs plus the present value of agency costs.
- B) plus the present value of tax shields plus the present value of financial distress costs plus the present value of agency costs.
- C) minus the present value of tax shields minus the present value of financial distress costs minus the present value of agency costs.
- D) plus the present value of tax shields minus the present value of financial distress costs minus the present value of agency costs.

Answer: <https://biology-forums.com/index.php?topic=1849097>

Question 1129

The risk-free rate of interest is 4% and the market risk premium is 9%. Howard Corporation has a beta of 2.0, and last year generated a return of 16% with a standard deviation of returns of 27%. The required return on Howard Corporation stock is

- A) 36%.
- B) 34%.
- C) 26%.
- D) 22%.

Answer: <https://biology-forums.com/index.php?topic=1848295>

Question 1130

A firm has after-tax cash flow from operations equal to \$100,000. Operating working capital increased by \$20,000, and the firm purchased \$30,000 of fixed assets. The firm's free cash flow was

- A) \$50,000.
- B) \$90,000.
- C) \$110,000.
- D) \$150,000.

Answer: <https://biology-forums.com/index.php?topic=1847905>

Question 1131

Flotation costs are typically greater in the secondary market than in the primary market.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847685>

Question 1132

Calculating the cost of capital for divisions within a company is not recommended because the data is too fragmented and all divisions are part of the same company in any case.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848687>

Question 1133

Minority shareholders have a greater chance of electing a member to the board of directors if the company uses

- A) cumulative voting.
- B) majority voting.
- C) minority voting.
- D) proxy voting.

Answer: <https://biology-forums.com/index.php?topic=1848509>

Question 1134

A firm increases the risks of insolvency by keeping relatively large amounts of money tied up in marketable securities.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849382>

Question 1135

An EBIT-EPS analysis allows the decision maker to visualize the impact of different financing plans on EPS over a range of EBIT levels.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849102>

Question 1136

The correct relationship for a premium bond is

- A) current yield > yield to maturity > coupon rate.
- B) current yield > coupon rate > yield to maturity.
- C) coupon rate > yield to maturity > current yield.
- D) coupon rate > current yield > yield to maturity.

Answer: <https://biology-forums.com/index.php?topic=1848448>

Question 1137

Most preferred stocks have a feature that requires all past unpaid preferred dividend payments be paid before any common stock dividends can be paid. What is the name of this feature?

- A) participating
- B) cumulative
- C) provisional
- D) convertible

Answer: <https://biology-forums.com/index.php?topic=1848474>

Question 1138

At a minimum, the sales forecast for the coming year would reflect

- A) any future trend in sales that is expected to begin in the new year.
- B) the influence of any anticipated events that might materially affect the sales trend.
- C) Both of the above are correct.
- D) Neither of the above is correct.

Answer: <https://biology-forums.com/index.php?topic=1849331>

Question 1139

The quantity of iPads that people plan to buy this month depends on all of the following EXCEPT the

- A) price of a rival's tablet.
- B) price of an iPad.

- C) the technology used to produce an iPad.
- D) price of apps.

Answer: <https://biology-forums.com/index.php?topic=1850032>

Question 1140

Which of the following statements about operating leverage is true?

- A) Operating leverage reduces a firm's risk.
- B) Operating leverage is the responsiveness of the firm's EBIT to fluctuations in sales.
- C) Operating leverage involves the usage of fixed cost financial securities in the operation of a business.
- D) Operating leverage is the responsiveness of the firm's EPS to fluctuations in sales.

Answer: <https://biology-forums.com/index.php?topic=1849060>

Question 1141

The risk-free rate of return is 2.5% and the market risk premium is 8%. Rogue Transport has a beta of 2.2 and a standard deviation of returns of 28%. Rogue Transport's marginal tax rate is 35%. Analysts expect Rogue Transport's dividends to grow by 6% per year for the foreseeable future. Using the capital asset pricing model, what is Rogue Transport's cost of retained earnings?

- A) 16.4%
- B) 17.7%
- C) 19.6%
- D) 20.1%

Answer: <https://biology-forums.com/index.php?topic=1848624>

Question 1142

A local lamp store expects to sell 2000 lamps in the coming year. It costs the store \$1.00 in carrying costs for each lamp and \$10.00 for each order placed.

- a. What is the economic order quantity for the lamps?
- b. How many orders will be placed each year?
- c. If the store wants a one-week safety stock and it takes one week to receive an order after it has been placed, what should the inventory level be when a new order is placed? Assume a 50-week year.

Answer: <https://biology-forums.com/index.php?topic=1849786>

Question 1143

Plantain, Inc. declared a dividend of \$1 per share on March 1. The ex-dividend date is March 15th, and the payment date is April 1st. The most likely record date is

- A) February 27th.
- B) March 17th.
- C) March 13th.
- D) March 29th.

Answer: <https://biology-forums.com/index.php?topic=1849215>

Question 1144

You borrow \$30,000 and agree to pay it off with one lump sum payment of \$40,000 in 6 years. What annual rate of interest will you be charged?

Answer: <https://biology-forums.com/index.php?topic=1848092>

Question 1145

Which of the following would be considered a variable cost in a manufacturing setting?

- A) rent
- B) administrative salaries
- C) insurance
- D) direct labor

Answer: <https://biology-forums.com/index.php?topic=1849017>

Question 1146

A corporation may lower its cost of capital by shifting a portion of its total financing from a higher cost source of capital, such as common equity, to a lower cost source of capital, such as debt.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848659>

Question 1147

A corporation with very high growth prospects and many positive NPV projects to fund may want to increase its dividend based on

- A) the tax bias against capital gains.
- B) the residual dividend theory.
- C) the information effect.
- D) the very low agency costs of the corporation.

Answer: <https://biology-forums.com/index.php?topic=1849161>

Question 1148

The current rate of return on a one-year U.S. Government security is 3%. The rate of return on a two-year U.S. Government security is 5%. According to the expectations theory, what is the return on a one-year U.S. Government security purchased one year from today?

Answer: <https://biology-forums.com/index.php?topic=1847807>

Question 1149

Financial structure is another term for capital structure.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849075>

Question 1150

The balance sheet and income statement for Johnson and Breakwater is presented below.

Balance Sheet (000)

Cash\$500

Accounts receivable1,500

Inventories500

Current assets2,500

Net fixed assets5,000

Total Assets7,500

Accounts payable1,200

Bank note300

Total current liabilities1,500

long-term debt4,000

Common stock300

Retained earnings1,700

Total liabilities and owners' equity\$7,500

Income Statement (000)

Net sales\$8,500

Cost of goods sold(3,400)

Gross profit5,100

Operating expenses(2,900)

Net operating income2,200

Interest expense (580)

Earnings before taxes1,620

Income tax (34%)(551)

Net income\$1,069

a. Compute the following ratios: Current ratio, Acid test ratio, Debt ratio, Total asset turnover, Operating profit margin, Return on total investments, Times interest earned, Inventory turnover.

b. All other things equal, compute the dollar amount of sales needed to achieve an 18% return on total assets for the coming year.

c. Given Johnson's inventory turnover ratio, find a way of computing the current level of inventory given this ratio and assuming the current level of inventories is unknown. Set up but do not solve.

Answer: <https://biology-forums.com/index.php?topic=1848050>

Question 1151

Dave Company, Inc. is considering purchasing a new grinding machine with a useful life of five years. The initial outlay for the machine is \$165,000.

The expected cash inflows are as follows:

YearAfter-tax Expected Cash Flow

115,000

235,000

370,000

490,000

570,000

Given that the firm has a 10% required rate of return, what is the NPV?

Answer: <https://biology-forums.com/index.php?topic=1848932>

Question 1152

The present value of the expected future cash flows of an asset represents the asset's

- A) liquidation value.
- B) book value.
- C) intrinsic value.
- D) par value.

Answer: <https://biology-forums.com/index.php?topic=1848373>

Question 1153

Fixed assets are often estimated incorrectly by the percent of sales method because

- A) fixed assets remain constant and the percent of sales method assumes all assets increase proportionally with sales.
- B) fixed asset are very expensive.
- C) fixed assets are typically purchased in "lumps" and therefore do not increase proportionally with sales.
- D) fixed assets are part of the capital budgeting process.

Answer: <https://biology-forums.com/index.php?topic=1849313>

Question 1154

Two factors that go into the determination of the appropriate order point are the deliver-time stock and the safety stock required.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849767>

Question 1155

What was the average annual rate of return on common stocks during the period 1926 to 2014?

- A) 15.4%
- B) 18.6%
- C) 10.1%
- D) 9.5%

Answer: <https://biology-forums.com/index.php?topic=1847782>

Question 1156

In general, a project's cash flows will fall into one of three categories. What are these categories?

Answer: <https://biology-forums.com/index.php?topic=1848936>

Question 1157

When an unexpected change in dividend policy develops, investors may attach informational content to the events.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849143>

Question 1158

All of the following elements of a cash management program will likely contribute to an increase in the value of the firm EXCEPT

- A) collect cash more quickly.
- B) slow down cash disbursements.
- C) prepare more accurate cash flow forecasts.
- D) increase cash balances for precautionary reasons.

Answer: <https://biology-forums.com/index.php?topic=1849667>

Question 1159

J.B. Enterprises purchased a new molding machine for \$85,000. The company paid \$8,000 for shipping and another \$7,000 to get the machine integrated with the company's existing assets. J.B. must maintain a supply of special lubricating oil just in case the machine breaks down. The company purchased a supply of oil for \$4,000. The machine is to be depreciated on a straight-line basis over its expected useful life of 8 years. Which of the following statements concerning the change in working capital is MOST accurate?

- A) The \$4,000 paid for oil is added to the initial outlay, offset by the tax savings \$1600.
- B) The \$4,000 may be expensed each year over the life of the project as part of the incremental free cash flows.
- C) The \$4,000 is added to the initial outlay and recaptured during the terminal year, hence having no impact on the projects NPV or IRR.
- D) Even if the \$4,000 is fully recovered at the end of the project, the project's NPV and IRR will be lower if the change in working capital is included in the analysis.

Answer: <https://biology-forums.com/index.php?topic=1848912>

Question 1160

Good A and good B are substitutes in production. The demand for good A increases so that the price of good A rises. The increase in the price of good A shifts the

- A) demand curve for good B leftward.
- B) demand curve for good B rightward.
- C) supply curve of good B leftward.
- D) supply curve of good B rightward.

Answer: <https://biology-forums.com/index.php?topic=1850046>

Question 1161

A return of 12% compounded annually is the same as a return of 1% per month.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848165>

Question 1162

There is no difference on an economic basis between a stock dividend and a stock split.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849227>

Question 1163

The firm's best financial structure is determined by finding the capital structure that minimizes the firm's cost of capital.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848668>

Question 1164

Amalgamated Mining, Inc. has very high operating leverage due to the capital intensive nature of the steel business. The firm's CEO is concerned about the variability in the firm's EPS if sales should drop, and decides to take action. Which of the following will reduce the variability in the firm's EPS for a given change in sales?

- A) The CEO may increase the firm's financial leverage and hence reduce the variability by using non-shareholder money to support the business.
- B) The CEO may decrease the firm's financial leverage, thus lowering the firm's total leverage.
- C) The CEO may increase the firm's total leverage by raising money from the sale of common stock.
- D) The CEO may issue more corporate bonds and use the proceeds to pay off short-term liabilities.

Answer: <https://biology-forums.com/index.php?topic=1849051>

Question 1165

You deposit \$5,000 per year at the end of each of the next 25 years into an account that pays 8% compounded annually. How much could you withdraw at the end of each of the 20 years following your last deposit if all withdrawals are the same dollar amount? (The twenty-fifth and last deposit is made at the beginning of the 20-year period. The first withdrawal is made at the end of the first year in the 20-year period.)

- A) \$18,276
- B) \$27,832
- C) \$37,230
- D) \$43,289

Answer: <https://biology-forums.com/index.php?topic=1848116>

Question 1166

The purpose of carrying inventory is to

- A) make different production processes more dependent on sales.
- B) make sales more independent of the production process.
- C) have collateral for loans.
- D) improve the current ratio.

Answer: <https://biology-forums.com/index.php?topic=1849770>

Question 1167

In the percent of sales method, a company's asset requirements are based on the company's projected sales level.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849276>

Question 1168

If you want to have \$12,500 in 57 months, how much money must you put in a savings account today? Assume that the savings account pays 4.5% and it is compounded quarterly; round to nearest \$1.

- A) \$8,459
- B) \$10,106
- C) \$10,387
- D) \$11,129

Answer: <https://biology-forums.com/index.php?topic=1848186>

Question 1169

Because they occur in private, stricter regulations are placed on the private placement of securities.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847741>

Question 1170

Analysis of dividend policy begins with the basic assumption that shareholder wealth maximization is the primary goal, and therefore dividends should be of primary concern even if their payment results in capital rationing.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849120>

Question 1171

Bondholders and preferred stockholders can be viewed as creditors, whereas the common stockholders are the true owners of the firm.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848501>

Question 1172

The supply curve indicates the minimum quantity that a producer would be willing to supply at alternative prices.

Answer: <https://biology-forums.com/index.php?topic=1850120>

Question 1173

Exceptions to purchase power parity exist if arbitrage opportunities are limited by characteristics such as perishability or high transportation costs.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849588>

Question 1174

Donuts and coffee are complements. When the price of a donut increases, the demand for coffee _____ and the cross elasticity of demand for coffee with respect to the price of a donut is _____.

- A) decreases; negative
- B) increases; negative
- C) increases; positive
- D) decreases; positive

Answer: <https://biology-forums.com/index.php?topic=1850195>

Question 1175

Stock W has the following returns for various states of the economy:

State of the Economy Probability Stock W's Return

Recession 10% -30%

Below Average 20% -2%

Average 40% 10%

Above Average 20% 18%

Boom 10% 40%

Stock W's standard deviation of returns is

- A) 10%.
- B) 14%.
- C) 17%.
- D) 20%

Answer: <https://biology-forums.com/index.php?topic=1848215>

Question 1176

Identify three reasons why a firm might buy back its own common stock shares.

Answer: <https://biology-forums.com/index.php?topic=1849263>

Question 1177

Which of the following influences does NOT shift the supply curve?

- A) a rise in the wages paid workers who produce the good
- B) the development of new technology
- C) people deciding that they want to buy more of the product
- D) a decrease in the number of suppliers

Answer: <https://biology-forums.com/index.php?topic=1850060>

Question 1178

If we invest money for 10 years at 8 percent interest, compounded semiannually, we are really investing money for 20 six-month periods, and receiving 4 percent interest each period.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848167>

Question 1179

Statutory restrictions on dividend payments include all of the following EXCEPT

- A) if liabilities exceed assets.
- B) if the amount of the dividend exceeds the firm's retained earnings.
- C) if the dividend is being paid from capital invested in the firm.
- D) if, because of the dividend payment, the firm intends to sell new common stock to fund its capital budget.

Answer: <https://biology-forums.com/index.php?topic=1849198>

Question 1180

Free cash flow calculations can be broken down into three parts: cash flows from operations, cash flows associated with working-capital requirements, and financing cash flows relating to interest and dividend payments.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848887>

Question 1181

One advantage of organized stock exchanges is increased stock price volatility resulting from the efficient exchange of pricing information.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847683>

Question 1182

You are considering a sales job that pays you on a commission basis or a salaried position that pays you \$50,000 per year. Historical data suggests the following probability distribution for your commission income. Which job has the higher expected income?

Commission Probability of Occurrence

\$15,000.15

\$35,000.20

\$48,000.35

\$67,000.22

\$80,000.18

- A) The salary of \$50,000 is greater than the expected commission of \$49,630.
- B) The salary of \$50,000 is greater than the expected commission of \$48,400.
- C) The salary of \$50,000 is less than the expected commission of \$50,050.
- D) The salary of \$50,000 is less than the expected commission of \$52,720.

Answer: <https://biology-forums.com/index.php?topic=1848208>

Question 1183

A typical measure for the risk-free rate of return is the

- A) U.S. Treasury bill rate.
- B) prime lending rate.
- C) money-market rate.
- D) short-term AAA-rated bond rate.

Answer: <https://biology-forums.com/index.php?topic=1848293>

Question 1184

Cash flows and profits are synonymous; in other words, higher cash flows equal higher profits.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847562>

Question 1185

The Road Ready Riding, Inc. will use an estimated 24,000 wheel assemblies in its manufacturing process next year. The carrying cost of the wheel assembly inventory is \$1.80 per wheel and the ordering cost per order is \$50. What is Road Ready's economic ordering quantity of wheel assemblies?

- A) 785
- B) 997
- C) 1,098
- D) 1,155

Answer: <https://biology-forums.com/index.php?topic=1849777>

Question 1186

Purchasing supplies on credit and paying for them 45 days later is an example of discretionary financing.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849291>

Question 1187

Jane is deciding whether to go to school for 8 weeks this summer. The cost of tuition and textbooks is \$1,700 and housing and other expenses will cost her \$600. If she does not go to school, she will live in her parents' house for free and they will cover her food and other expenses for her. Also, if Jane does not go to summer school she could work fulltime. But the best job she can get pays only \$600 per week, and Jane would only agree to give up her free time for no less than \$750 per week. However, if she goes to summer school, she'll have to spend 40 hours a week attending classes and studying.

- a) What will the summer school cost Jane in terms of money spent?
- b) What are the opportunity costs of going to summer school that Jane does not pay explicitly? Explain.
- c) What is Jane's total opportunity cost of going to school this summer? Explain your answer.
- d) Suppose that if Jane does not go to summer school, she will eventually take the classes anyway. What is Jane's marginal benefit of going to summer school?
- e) Suppose Jane decides to go to school in the summer. Explain her decision using the concepts of marginal cost and marginal benefit.

Answer: <https://biology-forums.com/index.php?topic=1849807>

Question 1188

How do gross profits, operating income, and net income relate to the areas of business activity reported in the income statement?

Answer: <https://biology-forums.com/index.php?topic=1847842>

Question 1189

A significant advantage of the payback period is that it

- A) places emphasis on time value of money.
- B) allows for the proper ranking of projects.
- C) tends to reduce firm risk because it favors projects that generate early, less uncertain returns.
- D) gives proper weighting to all cash flows.

Answer: <https://biology-forums.com/index.php?topic=1848782>

Question 1190

Which of the following statements would NOT be a valid use of pro forma financial statements?

- A) to determine a firm's needs for financing
- B) to enhance a firm's ability to offer shareholders guaranteed operating results
- C) to analyze the effects of a firm's forecasts on its financial performance
- D) to serve as a benchmark when comparing actual results to planned activities

Answer: <https://biology-forums.com/index.php?topic=1849319>

Question 1191

A revolving credit agreement is a legally binding agreement between a borrower and lender.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849461>

Question 1192

As a curve approaches a maximum point, the slope will

- A) be positive, then negative after the maximum point.
- B) be negative, then positive after the maximum point.
- C) remain constant on either side of the maximum point.
- D) increase before and after the maximum point.

Answer: <https://biology-forums.com/index.php?topic=1849849>

Question 1193

TC, Inc. has \$15 million of outstanding bonds with a coupon rate of 10 percent. The yield to maturity on these bonds is 12.5 percent. If the firm's tax rate is 30 percent, what is relevant cost of debt financing to TC, Inc.?

- A) 13.75 percent
- B) 8.75 percent
- C) 7.00 percent
- D) 3.75 percent

Answer: <https://biology-forums.com/index.php?topic=1848692>

Question 1194

Federal regulations make it impossible for rating agencies to drop a company's credit rating more than two notches at a time in order to prevent panic in bond markets.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848351>

Question 1195

The investment banker prefers to avoid a negotiated purchase because it tends to be the least profitable arrangement for the investment banker.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847738>

Question 1196

A tradeoff is illustrated by

- A) a point inside the PPF.
- B) a point outside the PPF.
- C) a change in the slope of the PPF.
- D) the negative slope of the PPF.

Answer: <https://biology-forums.com/index.php?topic=1849914>

Question 1197

Use the following information to calculate the change in the company's cash balance for the year.

Credit Sales\$800,000

Cash Sales\$500,000

Operating Expenses on Credit\$200,000

Cash Operating Expenses\$700,000

Accounts Receivable (Beg. of Year)\$50,000

Accounts Receivable (End of Year)\$80,000

Accounts Payable (Beg. of Year)\$50,000

Accounts Payable (End of Year)\$100,000

Income Taxes Paid\$160,000

A) \$145,000

B) \$180,000

C) \$260,000

D) \$365,000

Answer: <https://biology-forums.com/index.php?topic=1847897>

Question 1198

The costs associated with issuing securities to the public can be high. Some types of securities have greater expenses associated with them than others. Which of the following is the most costly security to issue?

- A) common stock
- B) corporate bonds
- C) preferred stock
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=1847767>

Question 1199

An asset with an original cost of \$100,000 and a current book value of \$20,000 is sold for \$50,000 as part of a capital budgeting project. The company has a tax rate of 30%. This transaction will have what impact on the project's initial outlay?

- A) reduce it by \$20,000
- B) reduce it by \$50,000
- C) reduce it by \$6,000
- D) reduce it by \$15,000

Answer: <https://biology-forums.com/index.php?topic=1848924>

Question 1200

The bowed-outward shape of a PPF

- A) is due to capital accumulation.
- B) reflects the unequal application of technology in production.
- C) illustrates the fact that no opportunity cost is incurred for increasing the production of the good measured on the horizontal axis but it is incurred to increase production of the good measured along the vertical axis.
- D) is due to the existence of increasing opportunity cost.

Answer: <https://biology-forums.com/index.php?topic=1849954>

Question 1201

The increase in owners' equity for a given period is equal to

- A) positive net cash flow minus dividends.
- B) net income minus dividends.
- C) sales minus dividends.
- D) gross profit minus distributions to shareholders.

Answer: <https://biology-forums.com/index.php?topic=1847835>

Question 1202

On a linear demand curve that intersects both axes

- A) the elasticity exceeds 1.00 at all prices.
- B) the elasticity is less than 1.00 at all prices.
- C) the elasticity equals 1.00 at all prices.
- D) the elasticity decreases as the price falls and quantity increases.

Answer: <https://biology-forums.com/index.php?topic=1850144>

Question 1203

Most corn produced in the United States is used for animal feed. The demand for corn is inelastic. These facts mean that

- A) there are many substitutes for corn in feeding animals.
- B) there are few substitutes for corn in feeding animals.
- C) there are no substitutes for corn in feeding animals.
- D) animals are not buying the corn themselves, so we cannot learn anything from these facts.

Answer: <https://biology-forums.com/index.php?topic=1850173>

Question 1204

The risk premium would be greater for an investment in an oil and gas exploration in unproven fields than an investment in preferred stock because

- A) oil and gas exploration investments have a greater variability in possible returns.
- B) the preferred stock is more liquid.
- C) the inflation rate would vary more with oil and gas exploration investments.
- D) both A and B

Answer: <https://biology-forums.com/index.php?topic=1847779>

Question 1205

Yields on various financial instruments tend to be positively correlated with maturity.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849647>

Question 1206

Meacham Corp. wants to issue bonds with a 9% coupon rate, a face value of \$1,000, and 12 years to maturity. Meacham estimates that the bonds will sell for \$1,090 and that flotation costs will equal \$15 per bond. Meacham Corp. common stock currently sells for \$30 per share. Meacham can sell

additional shares by incurring flotation costs of \$3 per share. Meacham paid a dividend yesterday of \$4.00 per share and expects the dividend to grow at a constant rate of 5% per year. Meacham also expects to have \$12 million of retained earnings available for use in capital budgeting projects during the coming year. Meacham's capital structure is 40% debt and 60% common equity. Meacham's marginal tax rate is 35%.

- Calculate the after-tax cost of debt assuming Meacham's bonds are its only debt.
- Calculate the cost of retained earnings.
- Calculate the cost of new common stock.
- Calculate the weighted average cost of capital assuming Meacham's total capital budget is \$30 million.

Answer: <https://biology-forums.com/index.php?topic=1848683>

Question 1207

The terminal warehouse agreement differs from the field warehouse agreement in that

- the cost of the terminal warehouse agreement is lower due to the lower degree of risk.
- the borrower of the field warehouse agreement can sell the collateral without the consent of the lender.
- the warehouse procedure differs for both agreements.
- the terminal agreement transports the collateral to a public warehouse.

Answer: <https://biology-forums.com/index.php?topic=1849495>

Question 1208

Dazzly Diamond Corp. called for credit at the Home Alone Bank of Paris, TX. The terms included a \$35,000 maximum loan with interest of 1 percent over prime, and the agreement also requires a 15% compensating balance throughout the year. The prime rate is currently 12 percent.

- If Dazzly Diamond Corp. maintains a balance in its account of \$5,250 to \$6,000, what is the effective cost of credit through the line-of-credit agreement where the maximum amount of the loan is used?
- Recompute the effective cost of credit to Dazzly Diamond if it will have to borrow the compensating balance and the maximum amount possible under the agreement.

Answer: <https://biology-forums.com/index.php?topic=1849507>

Question 1209

A saucer-shaped or U-shaped weighted average cost of capital curve results from the tax deductibility of interest, which results in the downward slope, followed by the recognition of potential financial distress costs, that cause the upward slope as the amount of debt ratio increases.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849080>

Question 1210

Funds that are available in a company's bank account until its payment check has cleared refers to

- mail float.
- processing float.
- transit float.
- disbursing float.

Answer: <https://biology-forums.com/index.php?topic=1849687>

Question 1211

Cash flows associated with a project's termination generally include the salvage value of the project net of any taxes associated with the sale.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848878>

Question 1212

Suppose a U.S. importer purchases an Italian product today but will not pay for it for 90 days. The cost of the product today is 85,000 euros. The spot exchange rate today is .7559 euros per dollar. How much is the cost today in dollars?

- \$58,062
- \$56,153
- \$65,683
- \$64,252

Answer: <https://biology-forums.com/index.php?topic=1849607>

Question 1213

The MAX Corporation is planning a \$4,000,000 expansion this year. The expansion can be financed by issuing either common stock or bonds. The new common stock can be sold for \$60 per share. The bonds can be issued with a 12 percent coupon rate. The firm's existing shares of preferred stock pay dividends of \$2.00 per share. The company's corporate income tax rate is 46 percent. The company's balance sheet prior to expansion is as follows:

MAX Corporation

Current Assets\$2,000,000
Fixed Assets8,000,000
Total Assets\$10,000,000
Current Liabilities\$1,500,000
Bonds:
(8%, \$1,000 par value)1,000,000
(10%, \$1,000 par value)4,000,000
Preferred Stock:
(\$100 par value)\$500,000
Common Stock:
(\$2 par value)700,000
Retained Earnings2,300,000
Total Liabilities and Equity\$10,000,000

- a. Calculate the indifference level of EBIT between the two plans.
b. If EBIT is expected to be \$3 million, which plan will result in higher EPS?

Answer: <https://biology-forums.com/index.php?topic=1849111>

Question 1214

Which of the following affect an asset's value to an investor?

- I. Amount of an asset's expected cash flow
- II. The riskiness of the cash flows
- III. Timing of an asset's cash flows
- IV. Investor's required rate of return

- A) I, II, III
- B) I, III, IV
- C) I, II, IV
- D) I, II, III, IV

Answer: <https://biology-forums.com/index.php?topic=1848377>

Question 1215

A textile manufacturer has cloth that has a \$14 per yard carrying cost per year. This cloth is used at a rate of 25,000 yards per year, and ordering costs are \$10 per order.

- a. What is the economic order quantity for this cloth?
b. What are the annual inventory costs for this firm if it orders in this quantity?

Answer: <https://biology-forums.com/index.php?topic=1849787>

Question 1216

A major corporation is considering a capital budgeting project that involves the development of a new technology. The controller estimates the net present value to be negative, yet argues that the company should invest in the project. Which of the following statements is MOST correct?

- A) The controller should be fired for making such a poor decision.
- B) The controller may be considering the option to expand or modify the project in the future.
- C) The profitability index may be greater than one, giving an accept decision.
- D) Capital rationing may exist for the current year.

Answer: <https://biology-forums.com/index.php?topic=1848938>

Question 1217

Identify and explain three different dividend policies.

Answer: <https://biology-forums.com/index.php?topic=1849223>

Question 1218

You notice that when interest rates increases, new residential housing prices tend to decrease. This observation indicates that

- A) there must be false causality between interest rates and housing prices.
- B) higher interest rates must cause low housing prices.
- C) a scatter diagram between interest rates and housing prices will show a negative relationship.
- D) a scatter diagram between interest rates and housing prices will show a direct relationship.

Answer: <https://biology-forums.com/index.php?topic=1849822>

Question 1219

You notice that when the inflation rate increases, the interest rate tends to increase. This observation indicates that

- A) there might be false causality between inflation and the interest rate.

- B) higher inflation rates must cause a higher interest rate.
C) a scatter diagram of the inflation rate and the interest rate will show a positive relationship.
D) the variables have an inverse relationship.

Answer: <https://biology-forums.com/index.php?topic=1849829>

Question 1220

An extremely liquid asset is one that can be sold for cash quickly without a reduction in price below its current market value.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849652>

Question 1221

If a 5 percent increase in the price of good A leads to a 4 percent decrease in the demand for good B, then _____.

- A) the goods are substitutes
B) only one good is a normal good
C) the goods are complements
D) both goods are normal goods

Answer: <https://biology-forums.com/index.php?topic=1850197>

Question 1222

How much would you be willing to pay (rounded to the nearest dollar) for a 20-year annuity due if the payments are \$4,500 per year and you want to earn a rate of return equal to 5.5% per year?

- A) \$84,500
B) \$63,445
C) \$56,734
D) \$53,777

Answer: <https://biology-forums.com/index.php?topic=1848145>

Question 1223

If a curve falls and then rises, it shows

- A) a maximum.
B) a minimum.
C) a linear relationship.
D) a constant slope relationship.

Answer: <https://biology-forums.com/index.php?topic=1849851>

Question 1224

Why does the future value of a given amount increase when interest is compounded nonannually as opposed to annually?

Answer: <https://biology-forums.com/index.php?topic=1848195>

Question 1225

Which of the following statements about financial leverage is true?

- A) Financial leverage is the responsiveness of the firm's EBIT to fluctuations in sales.
B) Financial leverage involves the incurrence of fixed operating costs in the firm's income stream.
C) Financial leverage is the responsiveness of the firm's EPS to fluctuations in EBIT.
D) Financial leverage reduces a firm's risk.

Answer: <https://biology-forums.com/index.php?topic=1849062>

Question 1226

The rights of an owner to use and exchange property are

- A) capitalist rights.
B) socialist rights.
C) property rights.
D) money rights.

Answer: <https://biology-forums.com/index.php?topic=1850013>

Question 1227

The first step in a corporation's financial forecasting process is the determination of the firm's financing needs.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849275>

Question 1228

Above the EBIT-EPS indifference point, a more heavily levered financial plan will produce greater EPS.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849105>

Question 1229

Financial leverage could mean financing some of a firm's assets with

- A) preferred stock.
- B) retained earnings.
- C) private equity capital.
- D) sales revenues.

Answer: <https://biology-forums.com/index.php?topic=1849054>

Question 1230

Operating leverage refers to

- A) financing a portion of the firm's assets with securities bearing a fixed rate of return.
- B) the additional chance of insolvency borne by the common shareholder.
- C) the incurrence of fixed operating costs in the firm's income stream.
- D) a high degree of variable costs of production.

Answer: <https://biology-forums.com/index.php?topic=1849056>

Question 1231

Which of the following would be considered the firm's optimal capital structure?

- A) Stock Price = \$25, Earnings Per Share = \$10, Cost of Equity Capital = 15%
- B) Stock Price = \$23, Earnings Per Share = \$11, Cost of Equity Capital = 18%
- C) Stock Price = \$24, Earnings Per Share = \$12, Cost of Equity Capital = 17%
- D) Stock Price = \$20, Earnings Per Share = \$12, Cost of Equity Capital = 20%

Answer: <https://biology-forums.com/index.php?topic=1849096>

Question 1232

The tools, instruments, machines, and buildings that people use to produce goods and services are called human capital.

Answer: <https://biology-forums.com/index.php?topic=1849804>

Question 1233

The direct quote in New York is .015 dollar per Pakistani rupee. The direct quote in Pakistan is 60 rupees per dollar. This imbalance in rates can be corrected by arbitrage. A trader will _____ rupees in New York and _____ rupees in Pakistan, causing the direct quote in New York to _____.

- A) buy; sell; increase
- B) buy; sell; decrease
- C) sell; buy; decrease
- D) sell; buy; increase

Answer: <https://biology-forums.com/index.php?topic=1849557>

Question 1234

Crenshaw Inc. has a \$400,000 line of credit with a local bank. The bank requires a compensating balance of 10% of the loan and extends credit to Crenshaw at 1% over the current prime rate. Crenshaw needs the use of \$200,000 for the three-month period. They currently have no deposits with the lending bank.

a. What will the effective annual cost of this credit be? (Assume a 360-day year and a 9% prime rate.)

b. Using the above information, what would be the effective interest rate if the firm discounted the interest on the loan?

Answer: <https://biology-forums.com/index.php?topic=1849506>

Question 1235

Which of the following accounts belongs in the liability section of a balance sheet?

- A) interest expense
- B) accumulated depreciation
- C) accounts payable
- D) preferred stock

Answer: <https://biology-forums.com/index.php?topic=1847877>

Question 1236

Permanent sources of financing include all but

- A) corporate bonds.
- B) common stock.
- C) preferred stock.
- D) commercial paper.

Answer: <https://biology-forums.com/index.php?topic=1849425>

Question 1237

Memory, Inc. expects earnings per share this year to be \$8. If earnings per share grow at an average annual rate of 6 percent and if Baker pays 60 percent of its earnings as dividends, what will the expected dividend per share be in 7 years?

Answer: <https://biology-forums.com/index.php?topic=1849122>

Question 1238

You are ready to retire. A glance at your 401(k) statement indicates that you have \$750,000. If the funds remain in an account earning 9.0%, how much could you withdraw at the beginning of each year for the next 25 years?

- A) \$55,620
- B) \$70,050
- C) \$35,830
- D) \$2,500

Answer: <https://biology-forums.com/index.php?topic=1848144>

Question 1239

The term "direct relationship" means the same as

- A) correlation.
- B) trend.
- C) positive relationship.
- D) negative relationship.

Answer: <https://biology-forums.com/index.php?topic=1849859>

Question 1240

The Sarbanes-Oxley Act, or SOX

- A) holds corporate advisors strictly accountable in a legal sense for any instances of misconduct.
- B) pretexts the interests of shareholders by providing greater protection against accounting fraud and financial misconduct.
- C) reduces the cost of financial reporting by standardizing reporting requirements.
- D) accomplishes both A and B.

Answer: <https://biology-forums.com/index.php?topic=1847770>

Question 1241

What are some examples of unsecured and secured sources of short-term credit?

Answer: <https://biology-forums.com/index.php?topic=1849514>

Question 1242

All of the following statements about agency problems are true EXCEPT

- A) Agency problems interfere with the goal of maximizing shareholder value.
- B) Agency costs are paid by the managers who do not act in the shareholders' best interest.
- C) Agency problems result from the separation of management and the ownership of a firm.
- D) The root cause of agency problems is conflicts of interest.

Answer: <https://biology-forums.com/index.php?topic=1847590>

Question 1243

A corporation decides to cut its dividend from \$2 per share to \$1.50 per share. Give two rationales/theories to explain why this action may cause the stock price to decrease and two rationales/theories to explain why this action may cause the stock price to increase.

Answer: <https://biology-forums.com/index.php?topic=1849188>

Question 1244

A corporation has been paying out \$1 million per year in dividends for the past several years. This year, the company wants to pay the \$1 million dividend, but can't. All of the following are reasons the company cannot continue its dividend payment policy EXCEPT

- A) the company's net income this year is less than \$1 million.
- B) the company's retained earnings balance at the end of the year is less than \$1 million.
- C) the company's cash balance is less than \$1 million.
- D) the company's liabilities exceed its assets.

Answer: <https://biology-forums.com/index.php?topic=1849202>

Question 1245

Higher flotation costs will result in all of the following EXCEPT

- A) higher after-tax cost of debt.
- B) higher weighted average cost of capital.
- C) higher cost of retained earnings.
- D) higher cost of common equity when new common shares are sold.

Answer: <https://biology-forums.com/index.php?topic=1848592>

Question 1246

The capital asset pricing model uses three variables to evaluate required returns on common equity: the risk-free rate, the beta coefficient, and the market risk premium.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848613>

Question 1247

Accrued taxes and salaries payable are both sources of spontaneous financing.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849408>

Question 1248

The most anyone is willing to pay for another purse is \$30. Currently the price of a purse is \$40, and the cost of producing another purse is \$50. The marginal benefit of a purse is

- A) \$50.
- B) \$40.
- C) \$30.
- D) an amount not given in the answers above.

Answer: <https://biology-forums.com/index.php?topic=1849985>

Question 1249

Corporations distribute cash back to their owners (stockholders) either as cash dividends or by repurchasing shares of stock in the open market.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849116>

Question 1250

QRM, Inc.'s marginal tax rate is 35%. It can issue 10-year bonds with an annual coupon rate of 7% and a par value of \$1,000. After \$12 per bond flotation costs, new bonds will net the company \$966 in proceeds. Determine the appropriate after-tax cost of new debt for the firm to use in a capital budgeting analysis.

- A) 2.62%
- B) 4.87%
- C) 7.50%
- D) 7.8%

Answer: <https://biology-forums.com/index.php?topic=1848697>

Question 1251

PrimaCare has a capital structure that consists of \$7 million of debt, \$2 million of preferred stock, and \$11 million of common equity, based upon current market values. The firm's yield to maturity on its bonds is 7.4%, and investors require an 8% return on the firm's preferred and a 14% return on PrimaCare's common stock. If the tax rate is 35%, what is PrimaCare's WACC?

- A) 7.21%
- B) 8.12%
- C) 10.18%
- D) 12.25%

Answer: <https://biology-forums.com/index.php?topic=1848681>

Question 1252

A firm's weighted average cost of capital is determined using all of the following inputs EXCEPT

- A) the firm's capital structure.
- B) the amount of capital necessary to make the investment.
- C) the firm's after-tax cost of debt.
- D) the probability distribution of expected returns.

Answer: <https://biology-forums.com/index.php?topic=1848669>

Question 1253

Forward contracts are usually quoted for periods greater than 1 year.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849531>

Question 1254

At 6 percent compounded monthly, how long will it take to triple your money?

- A) 221 months
- B) 175 months
- C) 102 months
- D) 48 months

Answer: <https://biology-forums.com/index.php?topic=1848177>

Question 1255

A new machine can be purchased for \$1,800,000. It will cost \$35,000 to ship and \$15,000 to fine-tune the machine. The new machine will replace an older version that is fully depreciated and will be sold for \$200,000. The firm's income tax rate is 35%. What is the initial outlay for capital budgeting purposes?

- A) \$1,580,000
- B) \$1,630,000
- C) \$1,650,000
- D) \$1,720,000

Answer: <https://biology-forums.com/index.php?topic=1848919>

Question 1256

Baxter Inc. has a target capital structure of 30% debt, 15% preferred stock, and 55% common equity. The company's after-tax cost of debt is 7%, its cost of preferred stock is 11%, its cost of retained earnings is 15%, and its cost of new common stock is 16%. The company stock has a beta of 1.5 and the company's marginal tax rate is 35%. What is the company's weighted average cost of capital if retained earnings are used to fund the common equity portion?

- A) 11.20%
- B) 12.00%
- C) 13.80%
- D) 14.45%

Answer: <https://biology-forums.com/index.php?topic=1848671>

Question 1257

How managers choose to finance the business affects the company's risk, and as a result, the rate of return stockholders receive on their investments.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847938>

Question 1258

Rawhide Outfitters had projected its sales for the first six months of 2012 to be as follows:

Jan. \$50,000 April \$180,000

Feb. \$60,000 May \$240,000

Mar. \$100,000 June \$240,000

Cost of goods sold is 60% of sales. Purchases are made and paid for two months prior to the sale. 40% of sales are collected in the month of the sale, 40% are collected in the month following the sale, and the remaining 20% in the second month following the sale. Total other cash expenses are \$40,000/month. The company's cash balance as of March 1st, 2012 is projected to be \$40,000, and the company wants to maintain a minimum cash balance of \$15,000. Excess cash will be used to retire short-term borrowing (if any exists). The firm has no short-term borrowing as of March 1st, 2012. Assume that the interest rate on short-term borrowing is 1% per month. What was Rawhide's projected loss for March?

- A) \$184,000

- B) \$110,000
- C) \$84,000
- D) none of the above

Answer: <https://biology-forums.com/index.php?topic=1849369>

Question 1259

The effective interest rate on short-term loans from Bank A is 12.5 percent per year. Bank B claims that their interest rate is only 11 percent per year. However, Bank B charges interest on a discount basis. Which bank is charging the lowest effective rate of interest on a one-year loan?

Answer: <https://biology-forums.com/index.php?topic=1849503>

Question 1260

The net present value profile clearly demonstrates that the NPV of a project increases as the discount rate increases.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848716>

Question 1261

WineCellars Inc. currently has a weighted average cost of capital of 12%. WineCellars has been growing rapidly over the past several years, selling common stock in each year to finance its growth. However, due to difficult economic times this year, WineCellars decides to cut its dividend and increase its retained earnings so that the common equity portion of its capital structure will include only retained earnings and no new common stock will be sold. WineCellars' weighted average cost of capital this year should be

- A) zero, since no new stock will be sold.
- B) less than 12%.
- C) equal to 12%.
- D) greater than 12%.

Answer: <https://biology-forums.com/index.php?topic=1848674>

Question 1262

Two key components of a prudent capital structure are the debt maturity composition and the debt to equity composition.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849077>

Question 1263

Generally accepted accounting principles (GAAP) require finance statements prepared on a cash basis because these statements are most useful for investors and managers.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847886>

Question 1264

Credit terms of 2/10, net 30 have a lower effective cost than credit terms of 2/10, net 60 because in the first case the loan will be repaid sooner.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849452>

Question 1265

If your demand for a good is _____, then a 1 percent fall in its price will lead you to _____ your expenditures on the good.

- A) inelastic; increase
- B) inelastic; decrease
- C) elastic; increase
- D) elastic; decrease

Answer: <https://biology-forums.com/index.php?topic=1850166>

Question 1266

The investor's required rate of return will equal the firm's cost of capital if corporate transactions costs are taken into account.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848590>

Question 1267

Which of the following is true regarding the correct price of the forward contract?

- A) If the quote is less than the computed price, the forward contract is undervalued.
- B) If the quote is greater than the computed price, the forward contract is overvalued.

- C) Both A and B
- D) Neither A nor B

Answer: <https://biology-forums.com/index.php?topic=1849563>

Question 1268

- A significant disadvantage of the internal rate of return is that it
- A) does not fully consider the time value of money.
 - B) does not give proper weight to all cash flows.
 - C) can result in multiple rates of return (more than one IRR).
 - D) is expressed as a percentage.

Answer: <https://biology-forums.com/index.php?topic=1848789>

Question 1269

Under cumulative voting, a 10% shareholder will likely be able to elect 10% of the board of directors.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848503>

Question 1270

Nelson Industries has a higher debt ratio than Butler, Inc., and Nelson also has a higher times interest earned ratio than Butler. If Nelson and Butler both have the same amount of total assets, then

- A) Nelson must have higher operating income than Butler.
- B) if both companies have the same operating income, Butler must be paying a higher interest rate on its long-term debt than Nelson is paying.
- C) Nelson may have more non-interest bearing liabilities, such as accounts payable, than Butler has.
- D) if both companies have the same operating income, a mistake was made in the calculations because the company with a higher debt ratio must have a lower times interest earned ratio.

Answer: <https://biology-forums.com/index.php?topic=1847979>

Question 1271

The capital budgeting decision-making process involves measuring the incremental cash flows of an investment proposal and evaluating the attractiveness of these cash flows relative to the project's cost.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848724>

Question 1272

The president of Smith Brothers, Inc. wants a dividend policy that minimizes the likelihood of decreasing the company's dividend per share. Which of the following policies should the CEO select?

- A) constant dividend payout ratio
- B) stable dollar dividend per share
- C) regular dividend plus a year-end extra
- D) All policies have the same likelihood of a dividend decrease because dividend changes are dependent on changes in earnings.

Answer: <https://biology-forums.com/index.php?topic=1849208>

Question 1273

John Q. Enterprises is considering two potential investments. The probability distributions of annual end-of-year cash flows for the respective projects are:

Project A Project B

Probability	Outcome	Probability	Outcome
0.25	\$10,000	0.25	\$12,000
0.50	\$15,000	0.50	\$15,000
0.25	\$20,000	0.25	\$18,000

Both projects will require an initial outlay of \$45,000 and will have an estimated life of 6 years. Project A is considered a riskier investment and will have to have a risk-adjusted required rate of return of 15%, while Project B's risk-adjusted required rate of return is 12%.

a. Determine the expected value of each project's annual cash flow.

b. Determine each project's risk-adjusted net present value.

Answer: <https://biology-forums.com/index.php?topic=1848973>

Question 1274

Project LMK requires an initial outlay of \$500,000 and has a profitability index of 1.4. The project is expected to generate equal annual cash flows over the next ten years. The required return for this project is 16%. What is project LMK's internal rate of return?

- A) 19.88%

- B) 22.69%
- C) 24.78%
- D) 26.12%

Answer: <https://biology-forums.com/index.php?topic=1848761>

Question 1275

Your son is born today and you want to make him a millionaire by the time he is 50 years old. You deposit \$10,700 in an investment account and want to know what annual interest rate must you earn in order to have the account value equal to \$1,000,000 on your son's 50th birthday.

- A) 17.8%
- B) 12.4%
- C) 9.5%
- D) 6.2%

Answer: <https://biology-forums.com/index.php?topic=1848147>

Question 1276

One example of a terminal cash flow is the recapture of the net working capital associated with the project.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848873>

Question 1277

What provisions are available to protect a preferred stockholder?

Answer: <https://biology-forums.com/index.php?topic=1848479>

Question 1278

If you were to use the standard deviation as a measure of investment risk, which of the following has historically been the least risky investment?

- A) common stock of large firms
- B) U.S. Treasury bills
- C) common stock of small firms
- D) long-term government bonds

Answer: <https://biology-forums.com/index.php?topic=1848235>

Question 1279

A wide bid/ask spread could indicate which of the following?

- A) the presence of arbitrageurs
- B) large volume transactions are taking place
- C) frequent trading of a currency
- D) an inefficient market

Answer: <https://biology-forums.com/index.php?topic=1849554>

Question 1280

Jane is willing to pay \$80 for a pair of shoes. The actual price of the shoes is \$50. Her marginal benefit is

- A) \$80.
- B) \$30.
- C) \$50.
- D) \$1300.

Answer: <https://biology-forums.com/index.php?topic=1850209>

Question 1281

The viewpoint that low dividends increase stock value is based on which of the following principles?

- A) time value of money
- B) risk-return trade-off
- C) taxes bias business decisions
- D) the agency problem

Answer: <https://biology-forums.com/index.php?topic=1849180>

Question 1282

Both compensating balances and discounting interest increase the effective interest rate on a loan.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849468>

Question 1283

Quincy Fathows & Co. plans to issue commercial paper for the first time in its 85-year history. The firm plans to issue \$400,000 in 120-day maturity notes. The paper will carry a 13% quarterly compounded rate with discounted interest and will cost Quincy Fathows \$8,000 in advance to issue.

- a. What is the effective cost of credit to Quincy Fathows?
b. What other factors should the firm consider in analyzing whether or not to issue the commercial paper?

Answer: <https://biology-forums.com/index.php?topic=1849508>

Question 1284

A company's cost of capital is equal to a weighted average of its investors' required returns.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848658>

Question 1285

The cost of common equity financing is more difficult to estimate than the costs of debt and preferred equity. Explain why.

Answer: <https://biology-forums.com/index.php?topic=1848655>

Question 1286

Why should firms that own and operate multiple businesses that have different risk characteristics use business-specific, or divisional costs of capital?

- A) Not all divisions have equal risk and the firm might accept projects whose returns are higher than are deemed appropriate.
B) Not all business divisions have equal risk and the firm will likely become less risky in the future.
C) Not all lines of business have equal risk and it is likely that the firm will accept projects whose returns are unacceptably low in relation to the risk involved.
D) Use of the same weighted average cost of capital for all divisions may result in too much money being allocated to the least risky division.

Answer: <https://biology-forums.com/index.php?topic=1848701>

Question 1287

Using the weighted average cost of capital as the required rate of return for every project will

- A) cause a firm to reject projects that should have been accepted.
B) cause a firm to accept projects that were too risky.
C) result in maximization of shareholder wealth.
D) A and B above

Answer: <https://biology-forums.com/index.php?topic=1848700>

Question 1288

Use the following information to calculate the company's accounting net income for the year.

Credit Sales \$800,000
Cash Sales \$500,000
Operating Expenses on Credit \$200,000
Cash Operating Expenses \$700,000
Accounts Receivable (Beg. of Year) \$50,000
Accounts Receivable (End of Year) \$80,000
Accounts Payable (Beg. of Year) \$50,000
Accounts Payable (End of Year) \$100,000
Corporate Tax Rate 40%

- A) \$300,000
B) \$240,000
C) \$125,000
D) \$120,000

Answer: <https://biology-forums.com/index.php?topic=1847829>

Question 1289

Any increase in interest payments caused by a project should be counted in the incremental cash flows.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848881>

Question 1290

Which of the following statements is MOST correct regarding beta?

- A) Beta must be calculated using at least 5 years of monthly returns data to be accurate.

- B) Beta can only be measured properly using daily returns.
- C) Beta for a particular company remains constant over time.
- D) Even professionals may not agree on the measurement of beta.

Answer: <https://biology-forums.com/index.php?topic=1848277>

Question 1291

If the marginal benefit from another computer exceeds the marginal cost of the computer, then to use resources allocatively efficiently

- A) more resources should be used to produce computers.
- B) fewer resources should be used to produce computers.
- C) if the marginal benefit exceeds the marginal cost by as much as possible, the efficient amount of resources are being used to produce computers.
- D) None of the above is correct because marginal benefit and marginal cost have nothing to do with using resources allocatively efficiently.

Answer: <https://biology-forums.com/index.php?topic=1849986>

Question 1292

The drought in the Midwest over the summer has decreased the supply of corn and, as a result, brought a sharp increase in the price of corn. (Source: The Economist, August 4, 2012)

The increase in the price of corn

- A) always increases consumer surplus.
- B) always decreases consumer surplus.
- C) does not affect consumer surplus because this change reflects only a movement along the demand curve.
- D) increases consumer surplus if demand is elastic and decreases consumer surplus if demand is inelastic.

Answer: <https://biology-forums.com/index.php?topic=1850217>

Question 1293

Which of the following forms of organizations have earnings that are taxed twice, once as business income and once as personal income as the earnings are distributed to the owners in the form of dividends?

- A) corporations
- B) general partnerships
- C) limited partnerships
- D) both A and C

Answer: <https://biology-forums.com/index.php?topic=1847653>

Question 1294

When using the pv (present value) function in Excel to calculate bond values, the bond's coupon rate is entered as the Rate variable.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848386>

Question 1295

What are some examples of permanent and temporary investments in current assets?

Answer: <https://biology-forums.com/index.php?topic=1849433>

Question 1296

Jackson Corp. common stock paid \$2.50 in dividends last year (D₀). Dividends are expected to grow at a 12-percent annual rate forever. If Jackson's current market price is \$40.00, what is the stock's expected rate of return (nearest .01 percent)?

- A) 5.50%
- B) 11.00%
- C) 18.25%
- D) 19.00%

Answer: <https://biology-forums.com/index.php?topic=1848577>

Question 1297

Manfred Manufacturing is involved in the production of machine parts. The company uses 600,000 pounds of steel annually. The current purchasing cost for steel is \$3.20 per pound. The carrying cost for inventory is 10 percent of the purchase price. The cost of ordering steel is \$800 per order. The company has decided to maintain a safety stock of 15,000 pounds. The delivery time per order is 6 days. The company works 365 days a year.

- a. Determine the optimal EOQ.
- b. How many orders will be placed annually?
- c. What is the average inventory?
- d. What is the inventory order point? (That is, at what level of inventory should a new order be placed?)
- e. What is the company's total inventory cost for the year?

Answer: <https://biology-forums.com/index.php?topic=1849784>

Question 1298

A negative value for the cross elasticity of demand between two goods indicates that

- A) the goods are complements.
- B) the goods are substitutes.
- C) one of the goods is normal and the other is inferior.
- D) each good is price inelastic.

Answer: <https://biology-forums.com/index.php?topic=1850194>

Question 1299

A call provision entitles a company to repurchase its preferred stock from holders at stated prices over a given time period.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848458>

Question 1300

The following information pertains to the Classic Burger Restaurant chain:

Sales \$600,000
Variable costs 300,000
Total contribution margin 300,000
Fixed costs 100,000
EBIT 200,000
Interest expense 50,000
Earnings before taxes 150,000
Taxes (30%) 45,000
Net income \$105,000

- a. If sales increase by 10%, what will be the new level of EPS if the firm has 100,000 shares outstanding?
- b. What is the percentage increase in EPS? Explain the difference between the percentage increase in sales and the percentage increase in EPS.

Answer: <https://biology-forums.com/index.php?topic=1849064>

Question 1301

You purchased 3,000,000 Indian rupees in London at an exchange rate of 54.86 to the dollar and simultaneously sold the rupees in Bahrain at an exchange rate of 55.12 to the dollar. What is the name for such a transaction?

- A) trend trading
- B) arbitrage
- C) currency swapping
- D) exchange rate hedging

Answer: <https://biology-forums.com/index.php?topic=1849570>

Question 1302

All of the following would result in an increase in stockholders equity EXCEPT

- A) the company sold common stock at par value.
- B) the company sold common stock above par value.
- C) the company purchased treasury stock.
- D) the company had positive net income greater than dividends paid.

Answer: <https://biology-forums.com/index.php?topic=1847868>

Question 1303

An analyst is evaluating two companies, A and B. Company A has a debt ratio of 50% and Company B has a debt ratio of 25%. In his report, the analyst is concerned about Company B's debt level, but not about Company A's debt level. Which of the following would best explain this position?

- A) Company B has much higher operating income than Company A.
- B) Company A has a lower times interest earned ratio and thus the analyst is not worried about the amount of debt.
- C) Company B has a higher operating return on assets than Company A, but Company A has a higher return on equity than Company B.
- D) Company B has more total assets than Company A.

Answer: <https://biology-forums.com/index.php?topic=1847969>

Question 1304

Universal Financial, Inc. has total current assets of \$1,200,000; long-term debt of \$600,000; total current liabilities of \$500,000; and long-term assets of \$800,000. How much is the firm's net working capital?

- A) \$1,000,000
- B) \$900,000

C) \$600,000

D) \$700,000

Answer: <https://biology-forums.com/index.php?topic=1847880>

Question 1305

Identify some practical considerations that affect a firm's payout policy.

Answer: <https://biology-forums.com/index.php?topic=1849222>

Question 1306

Charlie Corporation has two bonds outstanding. Both bonds mature in 10 years, have a face value of \$1,000, and have a yield to maturity of 8%. One bond is a zero coupon bond and the other bond has a coupon rate of 8%. Which of the following statements is true?

A) Both bonds must sell for the same price if markets are in equilibrium.

B) The zero coupon bond must have a higher price because of its greater capital gain potential.

C) The zero coupon bond must sell for a lower price than the bond with an 8% coupon rate.

D) All rational investors will prefer the 8% bond because it pays more interest.

Answer: <https://biology-forums.com/index.php?topic=1848387>

Question 1307

If a firm relies on short-term debt or current liabilities in financing its asset investments, and all other things remain the same, what can be said about the firm's liquidity?

A) The firm will be relatively more liquid.

B) The firm will be relatively less liquid.

C) The liquidity of the firm will be unchanged.

D) The firm will be more liquid only if interest rates are below the company's weighted average cost of capital.

Answer: <https://biology-forums.com/index.php?topic=1849399>

Question 1308

Borrowing more money will always increase a company's return on equity because the company is using financial leverage, but it also adds to the riskiness of the company.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847944>

Question 1309

If the market price of a bond decreases, then

A) the yield to maturity decreases.

B) the coupon rate increases.

C) the yield to maturity increases.

D) the coupon rate decreases.

Answer: <https://biology-forums.com/index.php?topic=1848423>

Question 1310

You are considering an investment in a AAA-rated U.S. corporate bond but you are not sure what rate of interest it should pay. Assume that the real risk-free rate of interest is 1.0%; inflation is expected to be 1.5%; the maturity risk premium is 2.5%; and, the default risk premium for AAA rated corporate bonds is 3.5%. What rate of interest should the U.S. corporate bond pay?

A) 8.5%

B) 6.0%

C) 5.0%

D) 2.5%

Answer: <https://biology-forums.com/index.php?topic=1847798>

Question 1311

A firm that is the only seller of a product and is in sole control of a market has a

A) monopoly.

B) quantity regulations.

C) subsidy.

D) public good.

Answer: <https://biology-forums.com/index.php?topic=1850268>

Question 1312

A firm's dividend policy includes two basic components: the dividend payout ratio and dividend stability.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849115>

Question 1313

Although under normal operating conditions preferred shareholders do not have voting rights, protective provision generally allow for voting rights in the event of nonpayment of preferred dividends.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848463>

Question 1314

Alloy Corp. is considering the acquisition of a new processing line. The processor can be purchased for \$4,550,000. It will cost \$65,000 to ship and \$190,500 to install the processor. A recently completed feasibility study that was performed at a cost of \$45,000 indicated that the processor would produce a positive NPV. Studies have shown that employee-training expenses will be \$150,000. What is the total investment in the processing line for capital budgeting purposes?

- A) \$4,550,000
- B) \$4,700,000
- C) \$4,955,500
- D) \$5,000,500

Answer: <https://biology-forums.com/index.php?topic=1848917>

Question 1315

Near-cash assets consist of marketable securities and accounts receivable.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849615>

Question 1316

A zero coupon bond is selling for \$476. The bond has a face value of \$1,000 and matures in 8 years. Your friend asks you if he should buy the bond. He tells you his required return is 9 percent. Would you recommend he buy the bond or not? Explain your answer.

Answer: <https://biology-forums.com/index.php?topic=1848435>

Question 1317

A common stock with an expected dividend growth rate of zero would be valued in the same way as preferred stock, that is, the expected dividend divided by the required return.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848520>

Question 1318

Financial structure is equal to non-interest bearing liabilities, such as accounts payable and accruals, plus capital structure, which includes short- and long-term debt, preferred stock, and common equity.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849076>

Question 1319

Public perception and reputation do not affect stock prices, which are strictly a function of dividends and required returns.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848483>

Question 1320

Which of the following statements concerning private placements is MOST correct?

- A) Private placements do not involve investment bankers.
- B) Although not selling the securities to the public, investment bankers may provide advice on the evaluation of prospective buyers and the terms of sale for private placements.
- C) Private placements are limited to stocks, not bonds.
- D) More than half of all private placements are sold to federal, state, or local governments or government agencies.

Answer: <https://biology-forums.com/index.php?topic=1847762>

Question 1321

When both the demand for a good increases and the supply of the good increases, the equilibrium quantity definitely increases.

Answer: <https://biology-forums.com/index.php?topic=1850123>

Question 1322

Consider the after-tax cash flows for Project S and Project L:

Project S Project L

Year 1 \$30000

Year 20 \$3000

A rational person would prefer _____.

- A) Project S because the money can be reinvested sooner
- B) Project L because they can avoid taxes by receiving cash flows later
- C) information about profits instead of cash flows
- D) neither investment over the other

Answer: <https://biology-forums.com/index.php?topic=1847604>

Question 1323

The viewpoint that high dividends increase stock values is based on which of the following principles?

- A) time value of money
- B) risk-return trade-off
- C) taxes bias business decisions
- D) the agency problem

Answer: <https://biology-forums.com/index.php?topic=1849181>

Question 1324

Financial forecasting is the process of attempting to estimate a firm's future financing requirements.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849266>

Question 1325

The change in the value of a corporation's common stock as the result of growth is the same regardless of whether the growth is the result of internal growth or the infusion of new capital.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848532>

Question 1326

A major disadvantage of the discounted payback period is the arbitrariness of the process used to select the maximum desired payback period.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848748>

Question 1327

Which of the following refers to all institutions and procedures that provide for transactions in short-term debt instruments generally issued by borrowers with very high credit ratings?

- A) capital market
- B) commercial banks
- C) money market
- D) stock market

Answer: <https://biology-forums.com/index.php?topic=1847719>

Question 1328

The industry in which a firm operates has relatively little effect on the relative amounts of transaction cash held.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849622>

Question 1329

To measure value, the concept of time value of money is used

- A) to determine the interest rate paid on corporate debt.
- B) to bring the future benefits and costs of a project, measured by its expected profits, back to the present.
- C) to bring the future benefits and costs of a project, measured by its cash flows, back to the present.
- D) to ensure that expected future profits exceed current profits today.

Answer: <https://biology-forums.com/index.php?topic=1847581>

Question 1330

International expansion often occurs because it is generally easier for firms to expand the market for their products rather than to develop new products.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849519>

Question 1331

AFB Systems is considering a new marketing campaign that will require the addition of a new computer programmer and new software. The programmer will occupy an office in AFB's current building and will be paid \$8,000 per month. The software license costs \$1,000 per month. The rent for the building is \$4,000 per month. AFB's computer system is always on, so running the new software will not change the current monthly electric bill of \$900. The incremental expenses for the new marketing campaign are

- A) \$13,900 per month.
- B) \$9,000 per month.
- C) \$13,000 per month.
- D) \$8,000 per month.

Answer: <https://biology-forums.com/index.php?topic=1848860>

Question 1332

Which of the following is used to manage a firm's cash disbursements?

- A) lockbox system
- B) bankers' acceptances
- C) repurchase agreements
- D) zero balance accounts

Answer: <https://biology-forums.com/index.php?topic=1849675>

Question 1333

If a firm were to experience financial insolvency, the legal system provides an order of hierarchy for the payment of claims. Assume that a firm has the following outstanding securities: mortgage bonds, common stock, debentures, and preferred stock. Rank the order in which investors that own mortgage bonds would have their claim paid?

- A) first
- B) second
- C) third
- D) fourth

Answer: <https://biology-forums.com/index.php?topic=1848334>

Question 1334

Assume that you have \$100,000 invested in a stock that is returning 14%, \$150,000 invested in a stock that is returning 18%, and \$200,000 invested in a stock that is returning 15%. What is the expected return of your portfolio?

- A) 13.25%
- B) 14.97%
- C) 15.67%
- D) 15.78%

Answer: <https://biology-forums.com/index.php?topic=1848219>

Question 1335

Operating return on assets is equal to the operating profit margin times total asset turnover.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847945>

Question 1336

How does an unusually warm winter affect the equilibrium price and quantity of gloves?

- A) It raises both the price and the quantity.
- B) It raises the price and decreases the quantity.
- C) It lowers the price and increases the quantity.
- D) It lowers both the price and the quantity.

Answer: <https://biology-forums.com/index.php?topic=1850107>

Question 1337

Potential sources of financing to support an increase in sales include all of the following EXCEPT

- A) increase in the dividend payout ratio.
- B) increase in spontaneous liabilities.
- C) increase in accounts payable.
- D) issuance of bonds and/or common stock.

Answer: <https://biology-forums.com/index.php?topic=1849310>

Question 1338

Assume that the British pound is worth 1.6242 U.S. dollars. If a new Jaguar costs \$138,000, what is the cost in British pounds?

- A) 201,000
- B) 84,965
- C) 71,642
- D) 119,998

Answer: <https://biology-forums.com/index.php?topic=1849567>

Question 1339

Last National Bank is offering you a loan at 10%; payments on the loan are to be made monthly. Credit Onion is offering you a loan where payments are to be made semiannually; the rate on the loan is also 10%. Local Bank down the street is also offering a loan at 10% where the payments are made quarterly. Which loan has the lowest annual cost?

- A) Last National Bank's loan
- B) Local Bank's loan
- C) Credit Onion's loan
- D) All of the loans will have the same annual cost.

Answer: <https://biology-forums.com/index.php?topic=1848193>

Question 1340

Which of the following dividend policies will cause dividends per share to fluctuate the most?

- A) constant dividend payout ratio
- B) stable dollar dividend
- C) small, low, regular dividend plus a year-end extra
- D) no difference between the various dividend policies

Answer: <https://biology-forums.com/index.php?topic=1849209>

Question 1341

Company K is considering two mutually exclusive projects. The cash flows of the projects are as follows:

Year	Project A	Project B
0	-\$2,000,000	-\$2,000,000
1	1500,000	
2	2500,000	
3	3500,000	
4	4500,000	
5	5500,000	
6	6500,000	
7	7500,000	5,650,000

- a. Compute the NPV and IRR for the above two projects, assuming a 13% required rate of return.
- b. Discuss the ranking conflict.
- c. What decision should be made regarding these two projects?

Answer: <https://biology-forums.com/index.php?topic=1848833>

Question 1342

All the following variables are used in computing the cost of debt EXCEPT

- A) maturity value of the debt.
- B) market price of the debt.
- C) number of years to maturity.
- D) risk-free rate.

Answer: <https://biology-forums.com/index.php?topic=1848694>

Question 1343

The hedging principle involves the use of hedge funds to manage the firm's working capital.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849409>

Question 1344

As residents of developing countries increase their chocolate consumption, the increased production of cocoa results in

- A) increased opportunity cost of cocoa production.
- B) decreased opportunity cost of cocoa production.
- C) no change in production of other goods and services.
- D) increased production of other goods and services.

Answer: <https://biology-forums.com/index.php?topic=1849920>

Question 1345

Exchange rate risk exists in International Trade Contracts, Foreign Portfolio Investments, and in Direct Foreign Investments.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849598>

Question 1346

Kingston Corp. is considering a new machine that requires an initial investment of \$480,000 installed, and has a useful life of 8 years. The expected annual after-tax cash flows for the machine are \$89,000 for each of the 8 years and nothing thereafter.

- a. Calculate the net present value of the machine if the required rate of return is 11 percent.
- b. Calculate the IRR of this project.
- c. Should Kingston accept the project (assume that it is independent and not subject to any capital rationing constraint)? Explain your answer.

Answer: <https://biology-forums.com/index.php?topic=1848793>

Question 1347

The price elasticity of demand _____ in value when moving downward along a _____ line demand curve.

- A) falls; straight
- B) rises; curved
- C) falls; curved
- D) rises; straight

Answer: <https://biology-forums.com/index.php?topic=1850137>

Question 1348

Assume that a firm has a steady record of paying high dividends for years. A new management team decided to cut the current year's dividend in half without disclosing why. The market value of the stock fell 35% on the day the dividend cut was announced. Which of the following would best explain the stock market's reaction to the announcement?

- A) empirical theory
- B) dividend irrelevance theory
- C) residual dividend theory
- D) information effect

Answer: <https://biology-forums.com/index.php?topic=1849176>

Question 1349

Seasoned secondary offerings occur in the secondary market.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847676>

Question 1350

Higher bankruptcy costs will result in optimal capital structures using more long-term debt financing.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849070>

Question 1351

The Modigliani and Miller hypothesis does NOT work in the "real world" because

- A) interest expense is tax deductible, providing an advantage to debt financing.
- B) higher levels of debt increase the likelihood of bankruptcy, and bankruptcy has real costs for any corporation.
- C) dividend payments are fixed and tax deductible for the corporation.
- D) both A and B

Answer: <https://biology-forums.com/index.php?topic=1849106>

Question 1352

The current yield for a bond is constant over time because the coupon rate is fixed.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848412>

Question 1353

How might capital rationing conflict with the goal of maximizing shareholders' wealth?

Answer: <https://biology-forums.com/index.php?topic=1848810>

Question 1354

A zero balance account permits divisions to disburse funds while maintaining centralized control of several bank accounts.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849635>

Question 1355

Which of the following statements about International Financial Reporting Standards (IFRS) is NOT true?

- A) IFRS sets out broad and general principles that accountants should follow when preparing financial statements.
- B) IFRS leaves LESS room for discretion than GAAP does.
- C) IFRS offers simplicity but also possibly more leeway for accounting malpractice than does GAAP.
- D) In 2008, the Securities and Exchange Commission (SEC) announced its plan to convert U.S. companies from GAAP to IFRS.

Answer: <https://biology-forums.com/index.php?topic=1847913>

Question 1356

From the shareholders' perspective, a stock repurchase has a potential tax advantage over the payment of a cash dividend.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849249>

Question 1357

The forecasted retained earnings balance is equal to (current retained earnings/current sales) times projected sales for next year.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849279>

Question 1358

A plant may remain operating when sales are depressed

- A) if the selling price per unit exceeds the variable cost per unit.
- B) to help the local economy.
- C) in an effort to cover at least some of the variable cost.
- D) unless variable costs are zero when production is zero.

Answer: <https://biology-forums.com/index.php?topic=1849010>

Question 1359

The slope of a negative relationship is

- A) negative.
- B) undefined.
- C) positive to the right of the maximum point and negative to the left.
- D) constant as long as the relationship is nonlinear.

Answer: <https://biology-forums.com/index.php?topic=1849872>

Question 1360

A "normal" yield curve is

- A) downward sloping.
- B) downward sloping, then upward sloping.
- C) upward sloping.
- D) upward sloping, then downward sloping.

Answer: <https://biology-forums.com/index.php?topic=1847801>

Question 1361

Financial ratios that are higher than industry averages may indicate problems that are as detrimental to the firm as ratios that are too low.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847935>

Question 1362

Achieving a lower inventory balance through working capital management can result in savings from both carrying costs and losses associated with obsolete inventory.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849384>

Question 1363

Floating lien agreements are the least secure form of inventory collateral.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849453>

Question 1364

Corporations utilize external financing either because they do not have sufficient earnings to reinvest or they want to rebalance their capital structures.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848981>

Question 1365

Of the following different types of securities, which is typically considered most risky?

- A) long-term corporate bonds
- B) long-term government bonds
- C) common stocks of large companies
- D) common stocks of small companies

Answer: <https://biology-forums.com/index.php?topic=1848233>

Question 1366

The "bird-in-the-hand dividend theory" supports which view of the effect of dividend policy on company value?

- A) A firm's dividend policy is irrelevant.
- B) High dividends increase stock values.
- C) Low dividends increase stock values.
- D) Constant dividends increase stock values.

Answer: <https://biology-forums.com/index.php?topic=1849179>

Question 1367

Specialization and trade allow countries to consume beyond their PPFs.

Answer: <https://biology-forums.com/index.php?topic=1850026>

Question 1368

Define the types of risk that are commonly referred to as political risk, and give some examples of them.

Answer: <https://biology-forums.com/index.php?topic=1849613>

Question 1369

The price elasticity of demand for adults for cigarettes is 0.4. If government wants to reduce smoking among adults by 15 percent, by what percentage should it raise the price of cigarettes?

Teenagers have a higher price elasticity of demand for cigarettes than do adults. Suppose the price elasticity of teenagers' demand for cigarettes is 0.8. If the government imposes a tax on cigarettes that raises the price to reduce overall smoking by 15 percent, by what percentage will the government reduce teenage smoking?

Answer: <https://biology-forums.com/index.php?topic=1850203>

Question 1370

A project's contribution-to-firm risk does allow for diversification within the firm.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848945>

Question 1371

What are the three major functions of an investment banker?

Answer: <https://biology-forums.com/index.php?topic=1847771>

Question 1372

A small biotechnology research corporation has been experiencing losses for the first three years of its existence, and thus has a negative balance in retained earnings. The corporation's stock price, however, is \$1 per share. Which of the following statements is MOST correct?

- A) Investors are irrational to pay \$1 per share when earnings per share have been negative for three years.
- B) Investors believe the stock is worth \$1 per share because future earnings (and cash flows) are expected to be positive.
- C) The corporation's accountants must have made a mistake because retained earnings may not be negative.
- D) The required return on the stock will be small because the company has very few assets.

Answer: <https://biology-forums.com/index.php?topic=1848543>

Question 1373

Spandra Electronics wants to raise money by selling stock. After talking to several investment banking firms, Spandra decides to hire Goldman Sachs to sell 5 million shares of its common stock. Goldman sells 4.5 million shares and returns the rest to Spandra. This is an example of

- A) a privileged subscription with a standby agreement.
- B) a commission or best-efforts agreement.
- C) a privileged subscription with a standby agreement.
- D) a competitive bid purchase.

Answer: <https://biology-forums.com/index.php?topic=1847752>

Question 1374

Suppose the current exchange rates are 1.3215 dollars per euro, and 84.19 yen per dollar. What is the current exchange rate between yen and euros?

- A) 86.356 yen per euro
- B) 147.571 yen per euro
- C) 151.696 yen per euro
- D) 111.257 yen per euro

Answer: <https://biology-forums.com/index.php?topic=1849558>

Question 1375

Low dividends may increase stock value according to the

- A) bird-in-the-hand theory.
- B) information effect.
- C) impact of agency costs.
- D) tax bias in favor of capital gains.

Answer: <https://biology-forums.com/index.php?topic=1849162>

Question 1376

A one-sign-reversal project should be accepted if it

- A) generates an internal rate of return that is higher than the profitability index.
- B) produces an internal rate of return that is greater than the firm's discount rate.
- C) results in an internal rate of return that is above a project's equivalent annual annuity.
- D) results in a modified internal rate of return that is higher than the internal rate of return.

Answer: <https://biology-forums.com/index.php?topic=1848790>

Question 1377

Given the following financial statements for ARGON Corporation, what is the company's after-tax cash flow from operations?

Income Statement

Balance Sheet

Year Ended 12/31/10 12/31/20 10 12/31/20 09

Sales \$1,300,000 Current Assets \$50,000 \$45,000

Cost of Goods Sold 750,000 Fixed Assets 430,000 350,000

Operating Expenses 200,000 Total Assets \$480,000 \$395,000

Depreciation 100,000

EBIT 250,000 Current Liabilities \$35,000 \$50,000

Interest Expense 50,000 Long-term Debt 330,000 270,000

EBT 200,000 Common Stock 5,000 5,000

Taxes 80,000 Retained Earnings 110,000 70,000

Net Income \$120,000 Total Liabilities & Equity \$480,000 \$395,000

A) \$10,000

B) \$270,000

C) \$120,000

D) \$295,000

Answer: <https://biology-forums.com/index.php?topic=1847898>

Question 1378

If sales double, the break-even model assumes that total variable costs will double.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848995>

Question 1379

A bond with a par value of \$1,000 is listed in the Wall Street Journal at a price of 100.50. This bond is selling for \$1,005.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848382>

Question 1380

Common-sized income statements are used to compare companies that have the same amount of revenues.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847816>

Question 1381

When operating on its PPF, a country can produce 2 tons of butter and 200 cars OR 3 tons of butter and 150 cars. The opportunity cost of 1 ton of butter is _____ cars per ton of butter.

A) 300

B) 200

C) 50

D) 0.75

Answer: <https://biology-forums.com/index.php?topic=1849922>

Question 1382

The T-bill return is used in the CAPM model as the risk-free rate.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848284>

Question 1383

We have achieved production efficiency if we can produce more of one good without producing less of some other good.

Answer: <https://biology-forums.com/index.php?topic=1850024>

Question 1384

A company with a bond rating of BBB is more likely to have which of the following qualities compared to a company with a bond rating of B?

A) greater reliance on equity financing

B) high variability in past earnings

C) little use of subordinated debt

D) small firm size

Answer: <https://biology-forums.com/index.php?topic=1848358>

Question 1385

If the NPV (Net Present Value) of a project with one sign reversal is positive, then the project's IRR (Internal Rate of Return) _____ the required rate of return.

A) must be less than

B) must be greater than

C) could be greater or less than

D) The project's IRR cannot be determined without actual cash flows.

Answer: <https://biology-forums.com/index.php?topic=1848781>

Question 1386

A CEO concerned about variability of earnings per share may try to offset high operating leverage with a capital structure that is mostly debt in order to take advantage of the interest tax shield.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849034>

Question 1387

In terms of the costs to organize each, which of the following sequences is correct, moving from highest to lowest cost?

- A) general partnership, sole proprietorship, limited partnership, corporation
- B) sole proprietorship, general partnership, limited partnership, corporation
- C) corporation, limited partnership, general partnership, sole proprietorship
- D) sole proprietorship, general partnership, corporation, limited partnership

Answer: <https://biology-forums.com/index.php?topic=1847649>

Question 1388

The price of jet fuel falls. This fall shifts the

- A) demand curve for airplane trips rightward.
- B) demand curve for airplane trips leftward.
- C) supply curve of airplane trips rightward.
- D) supply curve of airplane trips leftward.

Answer: <https://biology-forums.com/index.php?topic=1850062>

Question 1389

A bakery can produce either cakes or cookies. If the price of cookies rises, then

- A) the supply curve of cake shifts leftward.
- B) the supply curve of cake shifts rightward.
- C) there is a movement downward along the supply curve of cakes.
- D) there is a movement upward along the supply curve of cakes.

Answer: <https://biology-forums.com/index.php?topic=1850049>

Question 1390

Factoring accounts receivable is the sale of a firm's receivables while pledging accounts receivable is the use of accounts receivable as collateral for a loan.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849454>

Question 1391

The more substitutes available for a product, the

- A) larger is its price elasticity of demand.
- B) smaller is its income elasticity of demand.
- C) smaller is its price elasticity of demand.
- D) larger is its income elasticity of demand.

Answer: <https://biology-forums.com/index.php?topic=1850172>

Question 1392

Project A is expected to generate positive cash flow of \$1 million in 10 years while Project B is expected to generate \$500,000 in 5 years. Therefore

- A) Project A is preferred because shareholder value is based on cash flow.
- B) Project B is preferred because its cash flow is expected to be received sooner than the cash flow from Project A.
- C) Both projects have equal value because they average \$100,000 per year.
- D) Project B may be preferred to Project A if the opportunity cost of money is high enough.

Answer: <https://biology-forums.com/index.php?topic=1847587>

Question 1393

What is the value on 1/1/13 of the following cash flows:

Date Cash Received Amount of Cash

1/1/14 \$14,000

1/1/15 \$20,000

1/1/16 \$30,000

1/1/17 \$43,000

1/1/18 \$57,000

Use a 7% discount rate, and round your answer to the nearest \$10.

- A) \$153,270
- B) \$128,490
- C) \$112,350
- D) \$107,330

Answer: <https://biology-forums.com/index.php?topic=1848198>

Question 1394

In the case of insolvency, the claims of debt are honored prior to those of common stock and after those of preferred stock.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848346>

Question 1395

In order to maximize shareholder value, a corporation must earn a higher rate of return on a dollar that is retained in the corporation than the shareholders can earn by investing the dollar elsewhere.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849129>

Question 1396

The initial step in any effective cash management program is cash flow forecasting.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849628>

Question 1397

Adam Smith argued that each person in a competitive market is led to promote the

- A) efficient use of society's resources, because each person's intention is to make society better off.
- B) efficient use of society's resources, even though it is no person's intention to make society better off.
- C) inefficient use of society's resources, even though each person's intention is to make society better off.
- D) inefficient use of society's resources, because it is no person's intention to make society better off.

Answer: <https://biology-forums.com/index.php?topic=1850264>

Question 1398

Project W requires a net investment of \$1,000,000 and has a payback period of 5.6 years. You analyze Project W and decide that Year 1 free cash flow is \$100,000 too low, and Year 3 free cash flow is \$100,000 too high. After making the necessary adjustments,

- A) the payback period for Project W will be longer than 5.6 years.
- B) the payback period for Project W will be shorter than 5.6 years.
- C) the IRR of Project W will increase.
- D) the NPV of Project W will decrease.

Answer: <https://biology-forums.com/index.php?topic=1848757>

Question 1399

You are 21 years old today. Your grandparents set up a trust fund that will pay you \$25,000 per year for 20 years, starting on your 65th birthday to supplement your retirement. If the trust can earn 7.5% per year, how much will your grandparents need to put in the trust fund today (rounded to the nearest ten dollars)?

- A) \$11,370
- B) \$22,310
- C) \$5,250
- D) \$17,450

Answer: <https://biology-forums.com/index.php?topic=1848123>

Question 1400

When the price is below the equilibrium price, the quantity demanded

- A) is less than the equilibrium quantity and the quantity supplied also is less than the equilibrium quantity.
- B) is less than the equilibrium quantity but the quantity supplied exceeds the equilibrium quantity.
- C) exceeds the equilibrium quantity and the quantity supplied also exceeds the equilibrium quantity.
- D) exceeds the equilibrium quantity but the quantity supplied is less than the equilibrium quantity.

Answer: <https://biology-forums.com/index.php?topic=1850072>

Question 1401

Your parents are complaining about the price of items today compared to what they cost years ago. If an automobile that cost \$12,000 in 1980 costs \$40,000 in 2010, calculate the annual growth rate in the automobile's price.

Answer: <https://biology-forums.com/index.php?topic=1848091>

Question 1402

Use the "percent of sales method" of preparing pro forma financial statements to determine the projection for next year's inventory. Make the following assumptions: current year's sales are \$27,800,000; current year's cost of goods sold is \$17,528,000; sales are expected to rise by 30%. The firm's investment in inventory in the current year is \$5,890,200. What is the projection for next year's inventory?

- A) \$7,657,260
- B) \$6,981,250
- C) \$5,845,500
- D) \$4,526,600

Answer: <https://biology-forums.com/index.php?topic=1849323>

Question 1403

Basic tools of capital-structure management include

- A) EBIT-EPS analysis.
- B) comparative leverage ratios.
- C) capital budgeting techniques.
- D) both A and B.

Answer: <https://biology-forums.com/index.php?topic=1849108>

Question 1404

What is an incremental cash flow? What is a sunk cost? Why must you account for opportunity costs?

Answer: <https://biology-forums.com/index.php?topic=1848869>

Question 1405

The most critical aspect in determining the acceptability of a capital budgeting project is the impact the project will have on the company's net income over the projects entire useful life.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848707>

Question 1406

The percent of sales forecasting method works well because it accounts for economies of scale in assets such as inventory.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849301>

Question 1407

The percent of sales method does not accurately estimate the balances for lumpy assets. Which of the following statements best describes the possible errors?

- A) If excess capacity exists, the percent of sales method will overestimate asset requirements.
- B) The percent of sales method consistently underestimates the forecasted balances of lumpy assets.
- C) The percent of sales method consistently overestimates the forecasted balances of lumpy assets.
- D) If fixed assets are utilized at full capacity currently, the percent of sales method will underestimate the forecasted fixed asset balance.

Answer: <https://biology-forums.com/index.php?topic=1849348>

Question 1408

Beauty Inc. plans to maintain its optimal capital structure of 40 percent debt, 10 percent preferred stock, and 50 percent common equity indefinitely. The required return on each component source of capital is as follows: debt 8 percent; preferred stock 12 percent; common equity 16 percent. Assuming a 40 percent marginal tax rate, what after-tax rate of return must the firm earn on its investments if the value of the firm is to remain unchanged?

- A) 12.40 percent
- B) 12.00 percent
- C) 11.12 percent
- D) 10.64 percent

Answer: <https://biology-forums.com/index.php?topic=1848675>

Question 1409

The future value of an annuity will increase if the interest rate goes up, but the present value of the same annuity will decrease as the interest rate goes up.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848097>

Question 1410

Historically, price appreciation, or capital gains yield, has accounted for a greater portion of returns on common stocks than dividend payments.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848533>

Question 1411

The realized rate of return, or holding period return, is equal to the holding period dollar gain divided by the price at the beginning of the period.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848205>

Question 1412

John won the lottery on Monday and can take either \$50,000 per year for 20 years, or \$500,000 today. Bill won the same lottery on Tuesday and has the same options for receiving the cash. A well respected financial advisor is hired by both John and Bill. The advisor recommends that John take the \$50,000 per year for 20 years but advises Bill to take the \$500,000 up front payment. How is it possible to give different advice to two clients regarding the exact same cash flows?

Answer: <https://biology-forums.com/index.php?topic=1847613>

Question 1413

Speculative, or non-investment-grade, bonds have an S&P bond rating of

- A) C or less.
- B) CCC or less.
- C) BB or less.
- D) BBB or less.

Answer: <https://biology-forums.com/index.php?topic=1848357>

Question 1414

Suppose the price elasticity of demand for bouquets of flowers is 4.0. You are charging \$8 per bouquet. If you want to increase the quantity of bouquets you sell by 20 percent, what price should you charge?

Answer: <https://biology-forums.com/index.php?topic=1850202>

Question 1415

Suppose the current spot rate in New York is .0119 dollars per yen. Inflation for the coming year in the United States is expected to be 3%, while inflation for the coming year in Japan is expected to be only 1%. Using the purchasing power parity theory, what is the expected spot rate at the end of the year should be

- A) .0110147 dollars per yen.
- B) .0108159 dollars per yen.
- C) .0138373 dollars per yen.
- D) .0121356 dollars per yen.

Answer: <https://biology-forums.com/index.php?topic=1849589>

Question 1416

A project that is very sensitive to the selection of a discount rate will have a steep net present value profile.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848751>

Question 1417

Which of the following is an advantage of organized stock exchanges?

- A) increased stock price volatility
- B) screening companies to ensure only low risk stocks are sold
- C) providing a continuous market
- D) Only profitable companies may issue new securities on an organized exchange.

Answer: <https://biology-forums.com/index.php?topic=1847709>

Question 1418

A company borrows \$2,000,000 and uses the money to purchase high technology machinery for its operations. These are examples of

- A) cash flow from financing and cash flow from operations.
- B) cash flow from investing and cash flow from operations.
- C) cash flow from financing and cash flow from investing.
- D) cash flow from investing and cash flow from financing.

Answer: <https://biology-forums.com/index.php?topic=1847895>

Question 1419

A relative price is the product of two money prices.

Answer: <https://biology-forums.com/index.php?topic=1850116>

Question 1420

Flashbinder Guitars, Inc. is negotiating with the bank for a lockbox system that is expected to reduce check collection time by 4 days. Flashbinder Guitars' average check size is \$1,200 and any funds freed up by the new system will be invested in a money-market account that is currently paying 2.5% annually. What is the most Flashbinder Guitars should be willing to pay the bank for the lockbox service, assuming the bank charges a per-check processing fee?

- A) 20.500 cents
- B) 29.767 cents
- C) 30.726 cents
- D) 32.877 cents

Answer: <https://biology-forums.com/index.php?topic=1849679>

Question 1421

Microeconomics is the study of topics such as national production and unemployment.

Answer: <https://biology-forums.com/index.php?topic=1849802>

Question 1422

When there is a surplus in the market, the quantity sold is

- A) equal to the quantity supplied.
- B) equal to the quantity demanded.
- C) less than the quantity demanded.
- D) greater than the quantity bought.

Answer: <https://biology-forums.com/index.php?topic=1850082>

Question 1423

A project would be acceptable if

- A) the payback is greater than the discounted equivalent annual annuity.
- B) the equivalent annual annuity is greater than or equal to the firm's discount rate.
- C) the profitability index is greater than the net present value.
- D) the net present value is positive.

Answer: <https://biology-forums.com/index.php?topic=1848792>

Question 1424

What are the primary differences among a sole proprietorship, a partnership, and a corporation?

Answer: <https://biology-forums.com/index.php?topic=1847663>

Question 1425

The prime lending rate is the base rate on

- A) mortgage loans.
- B) home equity loans.
- C) auto loans.
- D) corporate loans.

Answer: <https://biology-forums.com/index.php?topic=1847777>

Question 1426

The closer the substitutes for a good, the

- A) more elastic is the demand for the good.
- B) less elastic is the demand for the good.
- C) smaller the degree of substitutability between the goods.
- D) larger the proportion of income that is spent on the good.

Answer: <https://biology-forums.com/index.php?topic=1850171>

Question 1427

If the price of a soda increases from 75¢ to \$1.00 and as a result the quantity demanded of sodas decreases from 10 to 9 per week, the elasticity of demand for sodas equals

- A) 2.72.
- B) 0.37.
- C) 0.83.
- D) 1.20.

Answer: <https://biology-forums.com/index.php?topic=1850127>

Question 1428

The slope of the characteristic line of a security is that security's beta.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848254>

Question 1429

Capital markets are all the financial institutions that help a business raise long-term capital.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847677>

Question 1430

Your company is able to arrange financing at either a rate of 12.75% annually, or at a rate of 12% compounded monthly. Assuming financing is needed for one year, which rate is the best?

- A) 12% compounded monthly, because the annual percentage yield is 12.68%.
- B) 12.75% annually, because the annual percentage yield for 12% compounded monthly is greater than 12.75%.
- C) 12.75% annually, because even though the annual percentage yield is higher, interest is paid only once per year at year end.
- D) Both rates are effectively the same, so your company should be indifferent between the two.

Answer: <https://biology-forums.com/index.php?topic=1849444>

Question 1431

Using the dividend valuation method, an analyst determines the value of Company A's stock to be \$10 and the value of Company B's stock to be \$14. Based on this information, which of the following statements is most accurate?

- A) Company B must be riskier than Company A, and risk requires a reward.
- B) Other things being equal, if Company A and Company B have the same firm value, Company B must have more debt, thus leveraging its returns for the benefit of shareholders.
- C) Other things being equal, if Company A and Company B have the same firm value, Company A may have more shares of stock outstanding than Company B.
- D) Company B's required rate of return is higher than Company A's required return.

Answer: <https://biology-forums.com/index.php?topic=1848551>

Question 1432

Changes in depreciation expense do not affect operating income because depreciation is a non-cash expense.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847821>

Question 1433

At one point along a PPF 40 tons of wheat are produced while 80 tons of rice are produced. At another point along the same PPF, 41 tons of wheat are produced while 70 tons of rice are produced. The opportunity cost of producing a ton of wheat between these points is _____ per ton of wheat.

- A) 1/2 ton of rice
- B) 10 tons of rice
- C) 1/10 ton of rice
- D) 4/7 ton of rice

Answer: <https://biology-forums.com/index.php?topic=1849924>

Question 1434

Premium Seed Sales, Inc. expects to generate sales of \$22,000,000 in the coming year. All sales are done on a credit basis, net 45 days. Premium Seed has estimated that it takes an average of three days for payments to reach their central office and an additional two days to process the payments. What is the opportunity cost of the funds tied up in the mail and processing? Premium Seed uses a 360-day year in all calculations and can invest free funds at 6.5%.

Answer: <https://biology-forums.com/index.php?topic=1849715>

Question 1435

How does internal growth versus the infusion of new capital affect the original shareholders?

Answer: <https://biology-forums.com/index.php?topic=1848571>

Question 1436

Joe, a risk-averse investor, is trying to choose between investment A and investment B. If investment A is riskier than investment B and Joe selects investment A anyway, then

- A) the actual return for investment A will be higher than the actual return for investment B.
- B) the actual return for investment A will be higher than the expected return for investment B.
- C) the expected return for investment A will be higher than the actual return for investment B.
- D) the expected return for investment A will be higher than the expected return for investment B.

Answer: <https://biology-forums.com/index.php?topic=1847585>

Question 1437

When deciding upon how much debt financing to employ, most practitioners would cite which of the following as the most important influence on the level of the debt ratio?

- A) providing a borrowing reserve
- B) maintaining desired bond rating
- C) ability to adequately meet financing charges
- D) exploiting advantages of financial leverage

Answer: <https://biology-forums.com/index.php?topic=1849094>

Question 1438

Redesign Corp. is considering a new strategy that would increase its expected return from 12% to 13.9%, but would also increase its beta from 1.2 to 1.8. If the risk-free rate is 5% and the return on the market is expected to be 10%, should Redesign change its strategy?

Answer: <https://biology-forums.com/index.php?topic=1848317>

Question 1439

Part of the U.S. Government's huge deficit is financed by foreign countries, such as China, which is a savings surplus unit.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847674>

Question 1440

A project's contribution to firm risk is relevant for undiversified investors or when bankruptcy costs exist.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848948>

Question 1441

Wages for workers producing iPods and similar products will rise next year. Walkman Watch asks you to predict the effect of this change in next year's market for iPods. You predict that the major effect will be that the

- A) demand curve for an iPod will shift rightward.
- B) demand curve for an iPod will shift leftward.
- C) supply curve for an iPod will shift leftward.
- D) supply curve for an iPod will shift rightward.

Answer: <https://biology-forums.com/index.php?topic=1850065>

Question 1442

Compared with other developed countries, the U.S. is particularly reliant on foreign trade for self-subsistence.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849516>

Question 1443

Under current accounting rules, the plant and equipment account shows the historical cost (purchase price) of, plus any subsequent improvements to, the plant and equipment.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847860>

Question 1444

Abe can catch 10 pounds of fish an hour or pick 10 pounds of fruit. Zeb can catch 30 pounds of fish an hour or pick 20 pounds of fruit. The opportunity cost of fish is _____ for Abe than for Zeb, and the opportunity cost of fruit is _____ for Abe than for Zeb.

- A) higher, lower

- B) lower, higher
- C) higher, higher
- D) lower, lower

Answer: <https://biology-forums.com/index.php?topic=1849961>

Question 1445

Argentina experienced a period of extremely high inflation relative to its trading partners and Argentina's currency decreased in value. This is an example of purchasing power parity theory.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849587>

Question 1446

Venture capitalists typically provide funds to high-risk startup companies but take no active role in their management.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847675>

Question 1447

TC Corp. paid a dividend today of \$5 per share. The dividend is expected to grow at a constant rate of 6.5% per year. If TC Corp. stock is selling for \$50.00 per share, the stockholders' expected rate of return is

- A) 11.50%.
- B) 13.56%.
- C) 15.49%.
- D) 16.50%.

Answer: <https://biology-forums.com/index.php?topic=1848574>

Question 1448

U.S Technologies preferred stock sells for \$80 and pays \$9 each year in dividends. What is the expected rate of return?

Answer: <https://biology-forums.com/index.php?topic=1848581>

Question 1449

The key ingredient in a firm's financial planning is an accurate sales forecast.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849265>

Question 1450

Interest payments on debt are not included in a project's incremental cash flows, but are instead accounted for in the project's discount rate.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848884>

Question 1451

Which of the statements below are true?

- A) The sole proprietorship and the general partnership both feature unlimited liability.
- B) A corporation is the business form that is typically the most complicated (legally) to establish.
- C) The corporation and the limited partnership both provide at least some owners with limited liability.
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=1847657>

Question 1452

You bought a racehorse that has had a winning streak for six years, bringing in \$250,000 at the end of each year before dying of a heart attack. If you paid \$1,155,720 for the horse 4 years ago, what was your annual return over this 4-year period?

- A) 8%
- B) 33%
- C) 18%
- D) 12%

Answer: <https://biology-forums.com/index.php?topic=1848140>

Question 1453

What are a firm's two principal sources of financing? Of what do these sources consist?

Answer: <https://biology-forums.com/index.php?topic=1847885>

Question 1454

If a common stockholder cannot personally attend the meeting of shareholders, then their votes are lost.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848502>

Question 1455

Creighton Industries is considering the purchase of a new strapping machine, which will cost \$150,000, plus an additional \$10,500 to ship and install. The new machine will have a 5-year useful life and will be depreciated to zero using the straight-line method. The machine is expected to generate new sales of \$45,000 per year and is expected to save \$16,000 in labor and electrical expenses over the next 5-years. The machine is expected to have a salvage value of \$20,000. Creighton's income tax rate is 35%. Creighton uses a 12.5% discount rate for capital budgeting purposes. What is the machine's NPV?

- A) \$29,888
- B) \$25,062
- C) \$22,153
- D) \$27,894

Answer: <https://biology-forums.com/index.php?topic=1848968>

Question 1456

Capital rationing generally leads to higher stock prices as management is doing the best job it can in selecting only the best capital budgeting projects.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848803>

Question 1457

If the price of gasoline fell from \$2.95 to \$2.85 per gallon, your expenditure on gasoline would increase if your price elasticity of demand for gasoline equals

- A) 1.1.
- B) 1.0.
- C) 0.9.
- D) Total revenue would increase at all of the above elasticities.

Answer: <https://biology-forums.com/index.php?topic=1850168>

Question 1458

You have \$25,000 in an investment account today. How much will be in the account in 30 years if the account earns (a) 8% per year, (b) 8% compounded semiannually, (c) 8% compounded quarterly, (d) 8% compounded monthly, and (e) 8% compounded daily? Comment on the effect of more frequent compounding.

Answer: <https://biology-forums.com/index.php?topic=1848194>

Question 1459

A firm's cash position would most likely be helped by

- A) delaying payment of accounts payable.
- B) more liberal credit policies for their customers.
- C) purchasing land for investment purposes.
- D) holding larger inventories.

Answer: <https://biology-forums.com/index.php?topic=1849364>

Question 1460

Donner, Inc. will finance a proposed investment by issuing new securities while maintaining its optimal capital structure of 60% debt and 40% equity. The firm can issue bonds at a price of \$950.00 before \$15 flotation costs. The 10-year bonds will have an annual coupon rate of 8% and a face value of \$1,000. The company can issue new equity at a before-tax cost of 16% and its marginal tax rate is 34%. What is the appropriate cost of capital to use in analyzing this project?

- A) 3.63%
- B) 8.77%
- C) 9.97%
- D) 11.81%

Answer: <https://biology-forums.com/index.php?topic=1848696>

Question 1461

The net present value always provides the correct decision provided that

- A) cash flows are constant over the asset's life.
- B) the required rate of return is greater than the internal rate of return.
- C) capital rationing is not imposed.
- D) the internal rate of return is positive.

Answer: <https://biology-forums.com/index.php?topic=1848805>

Question 1462

Of the following EOQ model assumptions, the most limiting is

- A) uniform demand.
- B) constant unit price.
- C) constant ordering costs.
- D) independent orders.

Answer: <https://biology-forums.com/index.php?topic=1849771>

Question 1463

Documents uncovered after the Exxon Valdez oil spill in Alaska revealed that Exxon could have used double-hulled oil tankers that would have prevented the spill, but the cost of refitting their fleet of single-hulled tankers was considered too high. Exxon determined that the cost of cleaning up an oil spill would be less than the cost of refitting the ships, thus increasing shareholder value. Several years after the oil spill, however, Exxon was fined billions of dollars for the spill. How do the costs of the cleanup and the fines pertain to a discussion of maximizing shareholder value and ethical responsibility?

Answer: <https://biology-forums.com/index.php?topic=1847553>

Question 1464

The board of directors of Wireless, Inc. is considering two compensation plans for the CEO of the company. The first would pay the CEO a salary of \$250,000 for the upcoming year. The second would pay the CEO a salary of \$100,000 and provide the CEO with a stock option to buy 100,000 shares of stock for \$11 per share. The current price per share of Wireless, Inc. stock is \$10 per share. The stock option expires at the end of the year. Why might shareholders prefer the second payment plan? As part of your answer, calculate the breakeven point for the CEO to obtain the same compensation under option two as he or she would under option one.

Answer: <https://biology-forums.com/index.php?topic=1847616>

Question 1465

U.S. Treasury bills are extremely liquid due to excellent secondary markets.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849658>

Question 1466

A corporation with \$1 million in retained earnings at the end of the year could easily pay a dividend of \$500,000.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849192>

Question 1467

The value of the y-coordinate of a point in a graph is the length of a line from the point to the

- A) origin.
- B) scalar.
- C) x-axis.
- D) y-axis.

Answer: <https://biology-forums.com/index.php?topic=1849810>

Question 1468

Consider a diagram in which the variable measured on the y-axis remains constant while the variable measured on the x-axis increases. The graph is of this relationship is a

- A) perpendicular line.
- B) line with slope equal to zero.
- C) line that has positive slope.
- D) line that has a negative slope.

Answer: <https://biology-forums.com/index.php?topic=1849871>

Question 1469

The benefits of a lockbox system include all of the following EXCEPT

- A) increased working cash.
- B) elimination of clerical functions.
- C) increase in total float.
- D) early knowledge of dishonored checks.

Answer: <https://biology-forums.com/index.php?topic=1849674>

Question 1470

The demand and the supply for a good are each neither perfectly elastic nor perfectly inelastic. If a sales tax on sellers of the good is imposed, the tax is paid by

- A) only buyers.
- B) only sellers.
- C) both buyers and sellers.
- D) neither buyers nor sellers.

Answer: <https://biology-forums.com/index.php?topic=1850333>

Question 1471

In an efficient securities market, the market value of a security is equal to

- A) its liquidation value.
- B) its book value.
- C) its intrinsic value.
- D) par value.

Answer: <https://biology-forums.com/index.php?topic=1848369>

Question 1472

The common stock for El Viss Company currently sells for \$20 per share. The firm just paid a dividend of \$1.50, and the dividend three years ago was \$1.30. Dividends per share are anticipated to grow at the same rate in the future as they have over the past three years. Flotation costs for new shares will be 6% of the selling price. Calculate the following:

- a. the cost of retained earnings
- b. the cost of external equity capital

Answer: <https://biology-forums.com/index.php?topic=1848649>

Question 1473

Due to the dominance of Chinese companies in international trade, the Chinese yuan is the most frequently traded currency.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849550>

Question 1474

Ratios of almost all companies are easily comparable because all public companies prepare their financial reports based upon generally accepted accounting principles.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847933>

Question 1475

Cary's wonderful parents established a college savings plan for him when he was born. They deposited \$50 into the account on the last day of each month. The account has earned 10% compounded monthly, tax-free. Now he's off to State U. What equal amount can they withdraw beginning today (his 18th birthday) and each year for three additional years to spend on his education, assuming that the account now earns 7% annually.

- A) \$8,285
- B) \$8,865
- C) \$9,486
- D) \$30,028

Answer: <https://biology-forums.com/index.php?topic=1848191>

Question 1476

Define systematic and unsystematic risk. What method is used to measure a firm's market risk?

Answer: <https://biology-forums.com/index.php?topic=1848282>

Question 1477

The existence of the tradeoff along the PPF means that the PPF is

- A) bowed outward.

- B) linear.
- C) negatively sloped.
- D) positively sloped.

Answer: <https://biology-forums.com/index.php?topic=1849953>

Question 1478

- A sales forecast for the coming year would reflect
- A) any past trend which is expected to continue.
 - B) the influence of any events that might materially affect that trend.
 - C) both A and B.
 - D) neither A nor B.

Answer: <https://biology-forums.com/index.php?topic=1849316>

Question 1479

Blue pens and black pens are close substitutes. The cross elasticity of demand for black pens with respect to the price of blue pens is _____.

- A) positive
- B) negative
- C) equal to 1
- D) zero

Answer: <https://biology-forums.com/index.php?topic=1850188>

Question 1480

A lockbox system can reduce all of the following elements of float EXCEPT

- A) mail float.
- B) processing float.
- C) transit float.
- D) disbursing float.

Answer: <https://biology-forums.com/index.php?topic=1849673>

Question 1481

The forward exchange rate quoted today should be equal to the spot rate in the future.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849526>

Question 1482

In a lockbox system, customer payments are collected directly by the bank and deposited immediately in the corporation's account.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849633>

Question 1483

A direct quote of \$1.6 per British pound in the United States is equivalent to a direct quote of .625 British pounds per U.S. dollar in Great Britain.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849547>

Question 1484

Auto workers negotiate a wage increase. How does this wage hike affect the supply of cars?

- A) It decreases the supply.
- B) It increase the supply.
- C) It has no effect.
- D) There is not enough information to tell if the change increases, decreases, or has no effect on the supply of cars.

Answer: <https://biology-forums.com/index.php?topic=1850044>

Question 1485

The interest earned on U.S. Treasury bills is subject to state and local income taxes.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849648>

Question 1486

The common stock of Cranberry Inc. is selling for \$26.75 on the open market. Next year's dividend is expected to be \$3.68, and the growth rate of this

company is estimated to be 5.5%. If Richard Dean, an average investor, is considering purchasing this stock at the market price, what is his expected rate of return?

Answer: <https://biology-forums.com/index.php?topic=1848584>

Question 1487

How frequently do corporations generally pay dividends?

- A) annually
- B) semiannually
- C) quarterly
- D) monthly

Answer: <https://biology-forums.com/index.php?topic=1849218>

Question 1488

All of the following business organizations provide limited liability to their owners EXCEPT

- A) general partnership.
- B) S-type corporation.
- C) corporation.
- D) limited liability company.

Answer: <https://biology-forums.com/index.php?topic=1847643>

Question 1489

A corporate manager decides to build a new store on a lot owned by the corporation that could be sold to a local developer for \$250,000. The lot was purchased for \$50,000 twenty years ago. When determining the value of the new store project,

- A) the cost of the lot is zero since the corporation already owns it.
- B) the opportunity cost of the lot is \$250,000 and should be included in calculating the value of the project.
- C) the cost of the lot for valuation purposes is \$50,000 because land does not depreciate.
- D) the incremental cash flow should be the \$50,000 original cost less accumulated amortization.

Answer: <https://biology-forums.com/index.php?topic=1847580>

Question 1490

Points outside the production possibilities frontier illustrate production points that cannot be attained.

Answer: <https://biology-forums.com/index.php?topic=1850022>

Question 1491

When Janet Yellen, Chair of the Federal Reserve, addresses Congress regarding the United States role in the world economy, she is discussing

- A) a macroeconomic topic.
- B) a microeconomic topic.
- C) scarcity.
- D) incentives.

Answer: <https://biology-forums.com/index.php?topic=1849797>

Question 1492

Simpson Conglomerates borrows \$12,000 for a short-term purpose. The loan will be repaid after 120 days, with Simpson paying a total of \$12,400. What is the approximate cost of credit using the APR, or annual percentage rate, calculation?

- A) 3.33%
- B) 4.00%
- C) 10.00%
- D) 11.75%

Answer: <https://biology-forums.com/index.php?topic=1849443>

Question 1493

Alice is willing to pay \$3 for the second slice of pizza she eats. The price she pays is \$2. Alice's consumer surplus for this slice of pizza equals

- A) \$0.
- B) \$1.
- C) \$2.
- D) \$3.

Answer: <https://biology-forums.com/index.php?topic=1850241>

Question 1494

NPV is the most theoretically correct capital budgeting decision tool examined in the text.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848725>

Question 1495

The price of a computer is \$1,000 and the price of a car is \$12,000. What is the relative price of a car? What is the relative price of a computer?

Answer: <https://biology-forums.com/index.php?topic=1850109>

Question 1496

If a bond has a market value that is higher than its par value, then the required return on the bond must be less than the bond's coupon rate.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848367>

Question 1497

Current assets would usually NOT include

- A) plant and equipment.
- B) marketable securities.
- C) accounts receivable.
- D) inventories.

Answer: <https://biology-forums.com/index.php?topic=1849391>

Question 1498

Depreciation is considered a fixed cost.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849001>

Question 1499

If a firm extends 4/10, net 60-day terms of sale, what is the cost in terms of nominal APR? Assume a 360-day year.

- A) 29.40%
- B) 30.0%
- C) 23.99%
- D) 27.86%

Answer: <https://biology-forums.com/index.php?topic=1849748>

Question 1500

Suppose XYZ Corporation is traded on the New York Stock Exchange. XYZ's closing price on Monday is \$20 per share. After the market closes on Monday, XYZ makes a surprise announcement that it has obtained a major new customer. XYZ's stock will likely

- A) open at \$20 per share on Tuesday and then increase as more investors read the announcement in the Wall Street Journal.
- B) remain at \$20 per share because in efficient markets the price already reflects all information.
- C) open above \$20 because the positive news will result in a higher valuation even though the stock has not yet traded.
- D) open below \$20 because the surprise announcement creates more uncertainty.

Answer: <https://biology-forums.com/index.php?topic=1847579>

Question 1501

Define interest rate risk. How does a bond's level of interest rate risk depend on its maturity?

Answer: <https://biology-forums.com/index.php?topic=1848453>

Question 1502

The information effect hypothesis implies that increasing dividends provides a more credible signal of higher future earnings than does management's assertion that future earnings will be higher.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849153>

Question 1503

Under majority voting, a majority (>50%) shareholder will be able to elect the entire board of directors.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848505>

Question 1504

Draw a production possibilities frontier between beans and peas. Label the unattainable points, the attainable points with fully employed resources, and the attainable points with unemployed resources.

Answer: <https://biology-forums.com/index.php?topic=1850014>

Question 1505

Frank Zanca is considering three different investments that his broker has offered to him. The different cash flows are as follows:

End of YearABC

1300400

2300

3300

4300300600

5300

6300

7300

8300600

Because Frank only has enough savings for one investment, his broker has proposed the third alternative to be, according to his expertise, "the best in town." However, Frank questions his broker and wants to calculate the present value of each investment. Assuming a 15% discount rate, what is Frank's best alternative?

Answer: <https://biology-forums.com/index.php?topic=1848160>

Question 1506

Ted Tech Inc. is offering a 10% stock dividend. The firm currently has 200,000 shares outstanding and after-tax profits of \$800,000. The current price of the stock is \$48.

a. Calculate the new earnings per share.

b. What is the original price/earnings multiple?

c. Providing that the price/earnings multiple stays the same, what will the new stock price be after the stock dividend?

Answer: <https://biology-forums.com/index.php?topic=1849245>

Question 1507

Increases in inventory and accounts receivable expected to occur if a proposed advertising campaign is undertaken are examples of sunk costs.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848889>

Question 1508

The New York Stock Exchange (NYSE) is

A) an automated electronic trading platform.

B) an auction market with face-to-face trading on the floor of the stock exchange in addition to automated, electronic trading.

C) a hybrid market, allowing for face-to-face trading on the floor of the stock exchange in addition to automated, electronic trading.

D) primarily a futures market.

Answer: <https://biology-forums.com/index.php?topic=1847725>

Question 1509

What is the difference between the IRR and the MIRR?

Answer: <https://biology-forums.com/index.php?topic=1848798>

Question 1510

The Knight Corporation projects that next year its fixed costs will total \$240,000. Its only product sells for \$34 per unit, of which \$18 is a variable cost. The management of Knight is considering the purchase of a new machine that will lower the variable cost per unit to \$14. The new machine, however, will add to fixed costs through an increase in depreciation expense. How large can the addition to fixed costs be in order to keep the firm's break-even point in units produced and sold unchanged?

Answer: <https://biology-forums.com/index.php?topic=1849028>

Question 1511

Which of the following is the most valid reason to split a stock that has a market price of \$110 per share?

A) conserve cash

B) reduce the market price to a more popular trading range

C) obtain additional capital

D) increase investor's net worth

Answer: <https://biology-forums.com/index.php?topic=1849240>

Question 1512

Over-the-counter markets include all security markets, with the exception of organized exchanges.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847688>

Question 1513

When the corporation sells securities directly to the investment public without involving an investment banker, it is called a privileged subscription.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847732>

Question 1514

IMXP Corp. enters into a 30-day forward exchange contract to buy 113,540,000 yen for \$100,000. Which of the following statements is true concerning this transaction?

- A) IMXP will pay \$100,000 and receive 113,540,000 yen 30 days from now.
- B) IMXP will pay \$100,000 today and receive 113,540,000 yen 30 days from now.
- C) The spot exchange rate in 30 days will be 113.54 yen per dollar.
- D) IMXP will receive 113,540,000 yen today and pay \$100,000 30 days from now.

Answer: <https://biology-forums.com/index.php?topic=1849559>

Question 1515

Progressive Corporation issued callable bonds. The bonds are most likely to be called if

- A) interest rates decrease.
- B) interest rates increase.
- C) Progressive Corporation needs additional financing.
- D) Progressive Corporation's stock price increases dramatically.

Answer: <https://biology-forums.com/index.php?topic=1848329>

Question 1516

You are currently 25 years of age. You have developed a lifetime budget that includes \$50,000 at age 40 for a college fund for your kids and \$25,000 per year for 20 years to supplement your retirement, the first payment on your 60th birthday and the last payment on your 79th birthday. You open an investment account on your 25th birthday that promises to pay 9% interest compounded annually. You want to deposit equal annual amounts into the account every year on your birthday, starting today (your 25th birthday) and continuing until you are 40 years old (i.e., the last deposit is made on your 40th birthday). How much will each deposit have to be if you want to meet your financial goals?

Answer: <https://biology-forums.com/index.php?topic=1848152>

Question 1517

What are the duties of a treasurer? Of a controller?

Answer: <https://biology-forums.com/index.php?topic=1847628>

Question 1518

The investment banker performs what three basic functions?

- A) underwriting, distributing, and regulating
- B) underwriting, advising, and price-pegging
- C) underwriting, distributing, and advising
- D) underwriting, distributing, and negotiating

Answer: <https://biology-forums.com/index.php?topic=1847757>

Question 1519

Beginning in 2007 the United States experienced its most severe financial crisis since the Great Depression of the 1930s.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847571>

Question 1520

A scatter diagram with the price of vacations to Mexico on the vertical axis and the price of vacations to California on the horizontal axis shows a positive relationship. If the price of vacations to Mexico were placed on the horizontal axis, and the price of vacations to California on the vertical axis,

the relationship would be

- A) negative relationship, also called a direct relationship.
- B) negative relationship, also called an inverse relationship.
- C) positive relationship, also called a direct relationship.
- D) positive relationship, also called an inverse relationship.

Answer: <https://biology-forums.com/index.php?topic=1849833>

Question 1521

A cash conversion cycle of -5 days is better than a cash conversion cycle of 50 days.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849434>

Question 1522

The average cost associated with each additional dollar of financing for investment projects is

- A) the incremental return.
- B) the marginal cost of capital.
- C) CAPM required return.
- D) the component cost of capital.

Answer: <https://biology-forums.com/index.php?topic=1848682>

Question 1523

The December 31, 2009 balance sheet shows net fixed assets of \$150,000 and the December 31, 2010 balance sheet shows net fixed assets of \$250,000. Depreciation expense for 2009 is \$25,000 and depreciation expense for 2010 is \$35,000. Based on this information, the cost of fixed assets purchased during 2010 is

- A) \$100,000.
- B) \$110,000.
- C) \$135,000.
- D) \$160,000.

Answer: <https://biology-forums.com/index.php?topic=1847867>

Question 1524

Which of the following is a likely outcome of rent ceilings?

- A) a surplus of rent-controlled housing
- B) waiting lists of potential renters of rent-controlled housing
- C) construction of more rental housing
- D) black market rents below the ceiling rent

Answer: <https://biology-forums.com/index.php?topic=1850297>

Question 1525

Bart's Moving Company bonds have a 11% coupon rate. Interest is paid semiannually. The bonds have a par value of \$1,000 and will mature 8 years from now. Compute the value of Bart's Moving Company bonds if investors' required rate of return is 9.5%.

- A) \$1,197.27
- B) \$1,133.05
- C) \$1,098.99
- D) \$1,082.75

Answer: <https://biology-forums.com/index.php?topic=1848400>

Question 1526

Harold considers investing in an LM Corp. bond and decides not to purchase the bond. Which of the following statements is MOST correct?

- A) The intrinsic value of the bond for the investor is less than the market value of the bond.
- B) The liquidation value of the bond is greater than the market value of the bond.
- C) The intrinsic value of the bond for the investor is less than the par value of the bond.
- D) The intrinsic value of the bond for the investor is greater than the book value of the bond.

Answer: <https://biology-forums.com/index.php?topic=1848368>

Question 1527

If a shareholder cannot attend the corporation's annual meeting, the shares may still be voted using

- A) the preemptive right.
- B) a proxy.
- C) majority voting rules.

D) the cumulative voting right.

Answer: <https://biology-forums.com/index.php?topic=1848508>

Question 1528

Which of the following can prevent markets from reaching efficiency?

I. decreasing marginal benefit

II. taxes

III. quantity regulations that limit the quantity that may be produced

A) I and II

B) I and III

C) II and III

D) I, II and III

Answer: <https://biology-forums.com/index.php?topic=1850271>

Question 1529

A firm can increase the growth rate of common stockholders' investment in the firm by retaining more earnings or increasing return on equity.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848524>

Question 1530

During the period 1990 to 2014, the average yield on 3-month U.S. Treasury bills was 3.04%, the average inflation rate was 2.64%, the average yield on 30-year Treasury bonds was 5.49%, and the average return on 30-year Aaa-rated corporate bonds was 6.35%. The real risk-free short-term interest rate is

A) 0.40%.

B) 2.13%.

C) 2.97%.

D) 4.76%.

Answer: <https://biology-forums.com/index.php?topic=1847786>

Question 1531

Your son will be attending an expensive university in 12 years. You deposit \$5,000 per year for 12 years, beginning today. How much money will be in the college fund 12 years from now if the fund earns 8% per year?

Answer: <https://biology-forums.com/index.php?topic=1848149>

Question 1532

If a bond is selling below its face value, then its yield to maturity must be less than the bond's coupon rate.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848446>

Question 1533

A project with a NPV of zero should be rejected since even the returns on U.S. Treasury bills are greater than zero.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848749>

Question 1534

An increase in the incomes of baseball fans in New York leads to a rightward movement along the demand curve but does not shift the demand curve for Yankees tickets.

Answer: <https://biology-forums.com/index.php?topic=1850118>

Question 1535

Which of the following strategies may be used to alter a firm's capital structure toward a higher percentage of debt compared to equity?

A) stock dividend

B) stock split

C) maintain a low dividend payout ratio

D) stock repurchase

Answer: <https://biology-forums.com/index.php?topic=1849259>

Question 1536

In capital budgeting analysis, when computing the weighted average cost of capital, the CAPM approach is typically used to find which of the

following?

- A) market value weight of equity
- B) pretax component cost of debt
- C) after-tax component cost of debt
- D) component cost of internal equity

Answer: <https://biology-forums.com/index.php?topic=1848635>

Question 1537

Trinitron, Inc. purchased a new molding machine for \$85,000. The company paid \$8,000 for shipping and another \$7,000 to get the machine integrated with the company's existing assets. Trinitron must maintain a supply of special lubricating oil just in case the machine breaks down. The company purchased a supply of oil for \$4,000. The machine is to be depreciated on a straight-line basis over its expected useful life of 8 years. What will depreciation expense be during the first year?

- A) \$13,000
- B) \$12,500
- C) \$11,625
- D) \$11,500

Answer: <https://biology-forums.com/index.php?topic=1848910>

Question 1538

Finance theory suggests that the current market value of a bond is based upon which of the following?

- A) the future value of interest paid on a bond
- B) the sum total of principal and interest paid on a bond
- C) the sum of the present value of the bond's interest payments and the present value of the principal
- D) the present value of a bond's par value plus the future value of the bond's present value

Answer: <https://biology-forums.com/index.php?topic=1848378>

Question 1539

Cash flows between investors and the firm, what we call financing cash flows, occur in one of four ways EXCEPT:

- A) Pay stock dividend.
- B) Pay interest to lenders.
- C) Pay dividends to stockholders.
- D) Increase or decrease interest-bearing debt.

Answer: <https://biology-forums.com/index.php?topic=1847925>

Question 1540

Money-market transactions include which of the following?

- A) any security that is paid for with cash
- B) 30-year U.S. Treasury bonds
- C) all securities paid for with the proceeds of a money-market account
- D) securities that have a maturity of less than one year

Answer: <https://biology-forums.com/index.php?topic=1847721>

Question 1541

The Eurodollar market is larger than any financial market in the United States.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849518>

Question 1542

Which of the following has the most significant influence on return on equity?

- A) common dividends
- B) principal payments
- C) accruals
- D) operating income

Answer: <https://biology-forums.com/index.php?topic=1848037>

Question 1543

If the demand curve for oranges is a downward sloping straight line, the price elasticity of demand will increase the

- A) higher the price of oranges.
- B) higher the price of other fruits.
- C) higher the income level of consumers.

D) lower the price of oranges.

Answer: <https://biology-forums.com/index.php?topic=1850134>

Question 1544

Raising funds internally is effectively increasing the investment of the firm's existing common shareholders.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849067>

Question 1545

You won the lottery and can receive either (1) \$60,000 today, or (2) \$10,000 one year from today plus \$25,000 two years from today plus \$35,000 three years from today. You plan to use the money to pay for your child's college education in 15 years. You should

- A) take the \$60,000 today because of the time value of money regardless of current interest rates.
- B) take option two because you get \$70,000 rather than \$60,000 regardless of current interest rates.
- C) take the \$60,000 today only if the current interest rate is at least 16.67%.
- D) take the \$60,000 today if you can earn 6.81% per year or more on your investments.

Answer: <https://biology-forums.com/index.php?topic=1848197>

Question 1546

The best form of business entity to attract new capital is the sole proprietorship because investors only need to deal with one owner.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847631>

Question 1547

NewLinePhone Corp. is very risky, with a beta equal to 2.8 and a standard deviation of returns of 32%. The risk-free rate of return is 3% and the market risk premium is 8%. NewLinePhone's marginal tax rate is 35%. Use the capital asset pricing model to estimate NewLinePhone's cost of retained earnings.

Answer: <https://biology-forums.com/index.php?topic=1848647>

Question 1548

If a price decrease results in your expenditure on a good decreasing, your demand must be

- A) inelastic.
- B) unit.
- C) elastic.
- D) linear.

Answer: <https://biology-forums.com/index.php?topic=1850164>

Question 1549

Discretionary financing needed is equal to projected total assets minus projected total liabilities.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849280>

Question 1550

A car manufacturer offers either \$2,000 cash back or zero percent financing for 5 years. A rational consumer will always take the cash back because money received today is worth more than money received in the future.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848073>

Question 1551

A wealthy private investor providing a direct transfer of funds is called

- A) a venture capitalist.
- B) an investment banker.
- C) a financial intermediary.
- D) an angel investor.

Answer: <https://biology-forums.com/index.php?topic=1847702>

Question 1552

If a project is acceptable using the net present value criteria, then it will also be acceptable under the less stringent criteria of the payback period.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848713>

Question 1553

The required rate of return reflects the costs of funds needed to finance a project.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848719>

Question 1554

Bob invested \$2,000 in an investment fund on his 21st birthday. The fund pays 7% interest compounded semiannually. Bob is celebrating his 50th birthday today. Bob decides he wants to retire on his 60th birthday and he wants to withdraw \$75,000 per year, the first withdrawal on his 60th birthday and the last withdrawal on his 90th birthday. Bob expects to receive \$100,000 from his employer on his 55th birthday in recognition of his long service to the company. Assume Bob has not taken any money out of his investment fund since he initially funded it on his 21st birthday, and that he will deposit the \$100,000 from his employer into the investment fund on his 55th birthday. The investment fund will be used to pay for Bob's retirement. If Bob makes no additional deposits into his investment fund, how much will be available for retirement at age 60?

Since the amount in (a) is insufficient to meet his retirement goals, Bob decides to deposit equal annual amounts into the investment fund beginning on his 51st birthday and ending on his 59th birthday, so that he can meet his retirement goals. How much will each deposit be?

Answer: <https://biology-forums.com/index.php?topic=1848153>

Question 1555

Working capital management involves managing a firm's liquidity.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849385>

Question 1556

If the United States can increase its production of automobiles without decreasing its production of any other good, the United States must have been producing at a point

A) within its PPF.

B) on its PPF.

C) beyond its PPF.

D) None of the above is correct because increasing the production of one good without decreasing the production of another good is impossible.

Answer: <https://biology-forums.com/index.php?topic=1849949>

Question 1557

Variation in a company's income stream results from its choice of business line, its choice of an operating cost structure, and its choice of a capital structure.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848979>

Question 1558

In general, common stock and preferred stock are both valued by calculating the present value of all expected future cash flows, using the required return as the discount rate.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848521>

Question 1559

Dividend changes may be used by management as a credible communication tool to signal investors about future earnings under which of the following dividend policy theories?

A) the clientele effect

B) the residual dividend theory

C) the information effect

D) the expectations theory

Answer: <https://biology-forums.com/index.php?topic=1849166>

Question 1560

The expected rate of return from an investment is equal to the expected cash flows divided by the initial investment.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848202>

Question 1561

An investor who pays no tax would be more likely to accept the view that high dividends increase stock values rather than the view that low dividends

increase stock values.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849123>

Question 1562

Decker Corp. common stock has a required return of 17.5% and a beta of 1.75. If the expected risk free return is 3%, what is the expected return for the market based on the CAPM?

- A) 11.29%
- B) 14.29%
- C) 13.35%
- D) 15.27%

Answer: <https://biology-forums.com/index.php?topic=1848304>

Question 1563

The most important reasons firms hold cash balances are the transaction and precautionary motives.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849624>

Question 1564

A call provision allows the issuing firm the opportunity to avoid rising interest rates by calling investors and asking for more cash.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848462>

Question 1565

Variation in the rate of return of an investment is a measure of the riskiness of that investment.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848211>

Question 1566

The amount of time elapsed since a price change impacts the elasticity of demand because as more time passes,

- A) people can find more substitutes, and so the elasticity of demand decreases.
- B) people can find more substitutes, and so the elasticity of demand increases.
- C) people's incomes will increase, and so the elasticity of demand decreases.
- D) the good's price will have a chance to return to its previous level.

Answer: <https://biology-forums.com/index.php?topic=1850175>

Question 1567

As long as the supply curve for a good is upward sloping and the demand curve is downward sloping, a sales tax imposed on sellers shifts the supply curve

- A) leftward and definitely raises the equilibrium price.
- B) leftward and possibly raises the equilibrium price.
- C) rightward and possibly increases the equilibrium quantity.
- D) rightward and definitely decreases the equilibrium quantity.

Answer: <https://biology-forums.com/index.php?topic=1850329>

Question 1568

A stock split is defined as a stock dividend exceeding 25%.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849224>

Question 1569

What is the information effect associated with dividends? Why does it occur?

Answer: <https://biology-forums.com/index.php?topic=1849187>

Question 1570

A rational investor would prefer to receive \$1,200 today rather than \$100 per month for 12 months.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848060>

Question 1571

Put the following in order of their claim on assets of a firm, starting with the LAST to have a claim:

- A. Subordinated debentures
- B. Debentures (unsubordinated)
- C. Common Stock
- D. Preferred stock

- A) C, B, A, D
- B) C, D, A, B
- C) B, A, C, D
- D) D, C, B, A
- E) D, C, A, B

Answer: <https://biology-forums.com/index.php?topic=1848335>

Question 1572

Because there are no fixed financing costs, a common stock plan line in an EBIT-EPS analysis chart will have a less-steep slope than will a bond plan line.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849103>

Question 1573

What financial statement explains the changes that took place in the firm's cash balance over a period?

- A) statement of cash flow
- B) balance sheet
- C) income statement
- D) reconciliation of free cash flow

Answer: <https://biology-forums.com/index.php?topic=1847892>

Question 1574

The main disadvantage of the NPV method is the need for detailed, long-term forecasts of free cash flows generated by prospective projects.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848736>

Question 1575

What is the greatest risk associated with cash management?

- A) yields
- B) insolvency
- C) holding too much cash
- D) managing float

Answer: <https://biology-forums.com/index.php?topic=1849671>

Question 1576

Bankers Corp. has a very conservative beta of .7, while Biotech Corp. has a beta of 2.1. Given that the T-bill rate is 5%, and the market is expected to return 15%, what is the expected return of Bankers Corp., Biotech Corp., and a portfolio composed of 60% of Bankers Corp. and 40% Biotech Corp.?

- a. Solve this problem first by weighting the betas to calculate a portfolio beta, and then using CAPM to calculate the portfolio expected return.
- b. Then solve the problem again by calculating the expected return of each asset and weighting those returns to calculate the portfolio expected return.
- c. Why is Biotech Corp.'s expected return NOT three times that of Bankers Corp.?

Answer: <https://biology-forums.com/index.php?topic=1848316>

Question 1577

Consumer surplus is the _____ summed over the quantity bought.

- A) marginal social benefit minus the marginal social cost
- B) number of dollars' worth of other goods and services forgone to obtain one more unit of a good or service
- C) value of a good or service minus the price paid for the good or service
- D) value of a good or service plus the price paid for the good or service

Answer: <https://biology-forums.com/index.php?topic=1850213>

Question 1578

All of the following are likely to increase the cost of a company's short-term financing EXCEPT

- A) an increase in the bank's prime lending rate.
- B) an increase in the compensating balance required.
- C) taking a loan on a discount basis.
- D) an increase in the company's debt rating by Moody's or Standard and Poors.

Answer: <https://biology-forums.com/index.php?topic=1849474>

Question 1579

Which of the following relationships is true regarding the costs of issuing the following securities?

- A) common stock > bonds > preferred stock
- B) preferred stock > common stock > bonds
- C) bonds > common stock > preferred stock
- D) common stock > preferred stock > bonds

Answer: <https://biology-forums.com/index.php?topic=1847755>

Question 1580

A bond with a coupon rate of 8% will also have a yield to maturity of 8%.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848445>

Question 1581

Distant Thunder, Inc. paid a dividend of \$5.00 per share on its common stock yesterday. Dividends are expected to grow at a constant rate of 10% for the next two years, at which point the dividends will begin to grow at a constant rate indefinitely. If the stock is selling for \$50 today and the required return is 15%, what is the expected annual dividend growth rate after year two?

- A) 3.365%
- B) 3.878%
- C) 4.556%
- D) 5.000%

Answer: <https://biology-forums.com/index.php?topic=1848564>

Question 1582

TRL, Inc. has spent \$2,000,000 in nonrefundable engineering fees in contemplation of building a convention center and the additional costs to complete the project are \$18,000,000. The present value of all benefits the center will produce in its lifetime are \$19,000,000, so TRL should not build the convention center.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848854>

Question 1583

One advantage of zero balance accounts is an increase in disbursing float.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849636>

Question 1584

What is the future value of \$500 invested at 8.94% compounded quarterly for 12.5 years (rounded to nearest \$1)?

- A) \$670
- B) \$1,510
- C) \$1,617
- D) \$46,739

Answer: <https://biology-forums.com/index.php?topic=1848180>

Question 1585

When producing goods and services along a PPF, tradeoffs exist because

- A) not all production is efficient.
- B) society has only a limited amount of productive resources.
- C) buyers and sellers often must negotiate prices.
- D) human wants and needs are limited at a particular point in time.

Answer: <https://biology-forums.com/index.php?topic=1849912>

Question 1586

What is the net present value's assumption about how cash flows are reinvested?

- A) They are reinvested at the IRR.
- B) They are reinvested at the APR.
- C) They are reinvested at the firm's discount rate.
- D) They are reinvested only at the end of the project.

Answer: <https://biology-forums.com/index.php?topic=1848829>

Question 1587

Corporations have two costs of common equity, one for retained earnings and one if the company issues new common stock.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848601>

Question 1588

Kokapeli, Inc. has a target capital structure of 40% debt and 60% common equity, and has a 40% marginal tax rate. If the firm's yield to maturity on bonds is 7.5% and investors require a 15% return on the firm's common stock, what is the firm's weighted average cost of capital?

- A) 7.20%
- B) 10.80%
- C) 12.00%
- D) 12.25%

Answer: <https://biology-forums.com/index.php?topic=1848680>

Question 1589

AFB, Inc. is expecting sales to increase by 20% next year, but its net fixed assets are expected to remain at their current level. This is an example of

- A) economies of scale.
- B) lumpy assets.
- C) spontaneous financing.
- D) discretionary financing.

Answer: <https://biology-forums.com/index.php?topic=1849345>

Question 1590

Short-term debt has a greater risk of illiquidity than long-term debt because it must be rolled over more frequently and its use creates more uncertainty concerning future interest rates.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849381>

Question 1591

Because common stock represents a residual interest in the corporation, the value of common stock is equal to the total firm value less the firm's outstanding debt.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848518>

Question 1592

Operating cash flow is equal to the change in EBIT less the change in interest expense, less the change in taxes, plus the change in depreciation.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848893>

Question 1593

As long as the marginal benefit from a good is greater than its marginal cost, an economy is operating efficiently.

Answer: <https://biology-forums.com/index.php?topic=1850025>

Question 1594

If an old asset is sold for its depreciated, or book, value, then no taxes result and there is no tax effect from the sale.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848872>

Question 1595

Cash markets are often referred to as spot markets.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847695>

Question 1596

Farrah owns 5,000 shares of stock in DAS, Inc. with a market value of \$15,000. DAS declares a 20% stock dividend. After the dividend is paid, Farrah owns

- A) 6,000 shares with a market value of \$18,000.
- B) 6,000 shares with a market value of \$15,000.
- C) 5,100 shares with a market value of \$15,300.
- D) 5,000 shares with a market value of \$18,000.

Answer: <https://biology-forums.com/index.php?topic=1849235>

Question 1597

What is the payback period for a project with an initial investment of \$180,000 that provides an annual cash inflow of \$40,000 for the first three years and \$25,000 per year for years four and five, and \$50,000 per year for years six through eight?

- A) 5.80 years
- B) 5.20 years
- C) 5.40 years
- D) 5.59 years

Answer: <https://biology-forums.com/index.php?topic=1848772>

Question 1598

Castle, Inc. paid a dividend yesterday of \$2 per share. Castle management expects the dividend to increase next year to \$3 annually. If the dividend is expected to stay at \$3 per year for the foreseeable future, what is the value of the stock to an investor with a required rate of return of 10%?

- A) \$7.50
- B) \$30.00
- C) \$32.00
- D) \$50.00

Answer: <https://biology-forums.com/index.php?topic=1848567>

Question 1599

Net profit margin is equal to the gross profit margin times the operating profit margin.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847818>

Question 1600

A firm's cost of capital is influenced by

- A) the current ratio.
- B) par value of common stock.
- C) capital structure.
- D) net income.

Answer: <https://biology-forums.com/index.php?topic=1848594>

Question 1601

An investment promises to pay you the following amounts at the end of each of the next 10 years: (1) \$1,000, (2) \$2,000, (3) \$3,000, (4) \$4,000, (5) - (10) \$5,000 per year. If you want to earn a return of 8% per year, how much will you be willing to pay for the investment today?

Answer: <https://biology-forums.com/index.php?topic=1848155>

Question 1602

A new machine can be purchased for \$1,200,000. It will cost \$35,000 to ship and \$15,000 to modify the machine. A \$12,000 recently completed feasibility study indicated that the firm can employ an existing factory owned by the firm, which would have otherwise been sold for \$180,000. The firm will borrow \$750,000 to finance the acquisition. Total interest expense for 5-years is expected to approximate \$350,000. What is the investment cost of the machine for capital budgeting purposes?

- A) \$2,180,000
- B) \$1,780,000
- C) \$1,442,000
- D) \$1,430,000

Answer: <https://biology-forums.com/index.php?topic=1848916>

Question 1603

Siskiyou Corp. has cash of \$75,000; short-term notes payable of \$100,000; accounts receivables of \$275,000; accounts payable of \$135,000:

inventories of \$350,000; and accrued expenses of \$75,000. What is the firm's net working capital?

- A) \$390,000
- B) \$175,000
- C) \$700,000
- D) \$210,000

Answer: <https://biology-forums.com/index.php?topic=1847881>

Question 1604

Speculative cash balances are held to take advantage of uncertain profit-making opportunities.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849623>

Question 1605

The rate of return available on the next best investment alternative for the saver refers to the opportunity cost of funds.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1847775>

Question 1606

The real rate of return is the return earned above the

- A) default risk premium.
- B) risk-adjusted return.
- C) inflation risk premium.
- D) variability of returns measured by standard deviation.

Answer: <https://biology-forums.com/index.php?topic=1847778>

Question 1607

Centralized control over disbursements is assisted by which of the following cash management techniques?

- A) lockbox system
- B) zero balance accounts
- C) payable-through drafts
- D) both B and C

Answer: <https://biology-forums.com/index.php?topic=1849677>

Question 1608

A company that sells common stock and uses the money to pay off a loan is increasing its use of financial leverage.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849031>

Question 1609

The internal rate of return is the discount rate that equates the present value of the project's future free cash flows with the project's initial outlay.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848730>

Question 1610

Suppose a tax is imposed on a good. This will

- A) increase the price paid by the buyer and decrease the price received by the seller.
- B) increase the price paid by the buyer but leave the price received by the seller unchanged.
- C) decrease the price received by the seller but leave the price received by the buyer unchanged.
- D) increase the price received by the seller and decrease the price paid by the buyer.

Answer: <https://biology-forums.com/index.php?topic=1850273>

Question 1611

If a company in a perfect capital market decreased its dividend per share, an investor would be forced to sell his common stock at a depressed price.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849139>

Question 1612

Two companies have identical assets and operating activities. Which of the follow statements is true?

- A) Both companies have the same net income.

- B) The company with more debt will have lower operating income due to interest expense.
C) The company with more debt will have higher operating income due to leverage.
D) The company with more debt will have lower net income due to interest expense.

Answer: <https://biology-forums.com/index.php?topic=1847840>

Question 1613

An increase in a corporation's marginal tax rate will cause the corporation's after-tax cost of debt to increase, other things remaining the same.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848616>

Question 1614

A bond matures in 20 years, at which time it pays the owner \$1,000. It also pays \$70 at the end of each of the next 20 years. If similar bonds are currently yielding 7%, what is the market value of the bond?

- A) over \$1,000
B) under \$1,000
C) exactly \$1,000
D) cannot be determined from the information given

Answer: <https://biology-forums.com/index.php?topic=1848148>

Question 1615

Given the anticipated rate of inflation (i) of 1.7% and the real rate of interest (R) of 1.4%, find the nominal rate of interest (r).

Answer: <https://biology-forums.com/index.php?topic=1847804>

Question 1616

What is a forward exchange rate?

Answer: <https://biology-forums.com/index.php?topic=1849576>

Question 1617

As a corporation's investment opportunities increase, the dividend payout ratio should decrease so that the corporation can avoid flotation costs.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1849135>

Question 1618

A bond maturing in 10 years pays \$80 each year (including year 10) and \$1,000 upon maturity. Assuming 10 percent to be the appropriate discount rate, the present value of the bond is

- A) \$877.11.
B) \$1,000.00.
C) \$416.39.
D) \$1,785.67.

Answer: <https://biology-forums.com/index.php?topic=1848090>

Question 1619

The objectives of a zero balance account system for the firm include

- A) reduce disbursing float.
B) achieve better control over its cash payments.
C) increase cash balances in regional rather than national banks.
D) All of the above are correct.

Answer: <https://biology-forums.com/index.php?topic=1849694>

Question 1620

A project with a payback period of four years is acceptable as long as the company's target payback period is greater than or equal to four years.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848710>

Question 1621

With regard to the hedging principle, which of the following would be an appropriate method to finance a minimum level of current assets required for year round operations?

- A) short-term notes payable
B) trade credit

C) common stock
D) revolving credit agreements that must be repaid in a period less than 1 year
Answer: <https://biology-forums.com/index.php?topic=1849429>

Question 1622

As the required rate of return of an investment decreases, the market price of the investment decreases.
[b][True or False][b]
Answer: <https://biology-forums.com/index.php?topic=1848291>

Question 1623

How is preferred stock affected by a decrease in the required rate of return?
A) The value of a share of preferred stock increases.
B) The dividend increases.
C) The dividend decreases.
D) The dividend yield increases.
Answer: <https://biology-forums.com/index.php?topic=1848488>

Question 1624

Pentrax Corp. issued 25 year bonds in 2002 with a coupon rate of 6% and a face value of \$1,000. The bonds sold for face value when issued. Since 2002, interest rates have increased, so the going rate on similar bonds is now 9%. Which of the following statements is MOST accurate?
A) An investor who purchased a Pentrax bond in 2002 and plans to keep the bond until it matures expects to earn 6% per year over the life of the bond.
B) Pentrax Corp. must now pay bondholders interest payments of \$90 per year due to the increase in interest rates.
C) An investor who purchased a Pentrax bond in 2002 and plans to keep the bond until it matures expects an increase in return from 6% per year to 9% per year.
D) The price of a Pentrax Corp. bond should be higher than \$1,000 due to the increase in rates.
Answer: <https://biology-forums.com/index.php?topic=1848424>

Question 1625

The cost of debt measures the cost of a bank loan, while the cost of preferred stock is used as a proxy for the cost of a new bond issue.
[b][True or False][b]
Answer: <https://biology-forums.com/index.php?topic=1848614>

Question 1626

For a given constant required rate of return, the greatest portion of a preferred stockholder's return comes from increases in the price of preferred stock.
[b][True or False][b]
Answer: <https://biology-forums.com/index.php?topic=1848459>

Question 1627

If project A generates \$10 million of free cash flow over its five year useful life and project B generates \$8 million of free cash flow over its five year useful life, then Project A will have a shorter payback period than Project B, assuming both projects require the same initial investment.
[b][True or False][b]
Answer: <https://biology-forums.com/index.php?topic=1848709>

Question 1628

The acid-test ratio of a firm would be unaffected by which of the following?
A) Accounts payable are reduced by obtaining a short-term loan.
B) Common stock is sold and the money is invested in marketable securities.
C) Inventories are sold for cash.
D) Inventories are sold on a short-term credit basis.
Answer: <https://biology-forums.com/index.php?topic=1847983>

Question 1629

Is it possible for a company that has negative net income and negative operating cash flow to end the year with an increase in cash and an increase in stock price? Explain your answer.
Answer: <https://biology-forums.com/index.php?topic=1847907>

Question 1630

If market interest rates decline,
A) short-term bonds will decline in value more than long-term bonds.
B) short-term bonds will rise in value more than long-term bonds.
C) long-term bonds will decline in value more than short-term bonds.
D) long-term bonds will rise in value more than short-term bonds.

Answer: <https://biology-forums.com/index.php?topic=1848452>

Question 1631

A firm's income statement reports the results from operating the business for a period of time, while the firm's balance sheet provides a snapshot of the firm's financial position at a specific point in time.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1847848>

Question 1632

ABC Corp. 5% preferred stock with a par value of \$100 and a market price of \$125 will pay an annual dividend this year of \$12 per share.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848480>

Question 1633

The three major components responsible for variation in a company's income stream are business risk, operating risk, and financial risk.

[b][True or False][/b]

Answer: <https://biology-forums.com/index.php?topic=1848977>

Question 1634

Increased depreciation expenses affect tax-related cash flows by
A) increasing taxable income, thus increasing taxes.
B) decreasing taxable income, thus reducing taxes.
C) decreasing taxable income, with no effect on cash flow since depreciation is a non-cash expense.
D) pushing a corporation into a higher tax bracket.

Answer: <https://biology-forums.com/index.php?topic=1848908>

Question 1635

Rogue Tire Masters has fixed costs of \$220,000. Tires sell for \$95 each and have a unit variable cost of \$45. What is Rogue's break-even point in units?

- A) 4,000
- B) 4,400
- C) 5,200
- D) 5,500

Answer: <https://biology-forums.com/index.php?topic=1849014>

Question 1636

Moving along a bowed-out PPF between milk and cotton, as more milk is produced the marginal cost of an additional gallon of milk

- A) rises.
- B) does not change.
- C) falls.
- D) probably changes, but in an ambiguous direction.

Answer: <https://biology-forums.com/index.php?topic=1849955>

Question 1637

If tea and coffee are substitutes, the cross elasticity of coffee with respect to the price of tea will be _____ and an increase in the price of tea will _____ the demand for coffee.

- A) positive; increase
- B) negative; decrease
- C) negative; increase
- D) positive; decrease

Answer: <https://biology-forums.com/index.php?topic=1850196>

Question 1638

Plimpton Sales presents income statements for the first three months of this year. Revenues are \$1,000,000 in January, \$1,200,000 in February, and

\$1,400,000 in March, while expenses total \$800,000 in January, \$900,000 February, and \$1,000,000 in March. Despite the positive net income, the controller believes Plimpton Sales needs to arrange short-term financing of \$300,000 to make payroll the next month. Which of the following statements is MOST correct?

- A) The controller must have made a mistake since the company's net income for the three months is \$900,000.
- B) The company's accounts receivable balance has decreased over the past three months.
- C) The company's accounts payable balance has increased over the past three months.
- D) The company's accounts receivable balance has increased and the accounts payable balance has decreased over the past three months.

Answer: <https://biology-forums.com/index.php?topic=1849363>

Question 1639

What is exchange rate risk? Why would a multinational firm be concerned about it?

Answer: <https://biology-forums.com/index.php?topic=1849614>

Question 1640

With international investing, unlike domestic investing, exchange rate risk could cause a marginally-positive-NPV project to be rejected due to the additional risk.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1849599>

Question 1641

If the price of a video download is below its equilibrium price, the quantity supplied is _____ than the quantity demanded. If the price of a video download is above its equilibrium price, the quantity supplied is _____ than the quantity demanded.

- A) less; greater
- B) greater; less
- C) less; less
- D) greater; greater

Answer: <https://biology-forums.com/index.php?topic=1850074>

Question 1642

A firm's weighted average cost of capital is a function of (1) the individual costs of capital, (2) the capital structure mix, and (3) the level of financing necessary to make the investment.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848666>

Question 1643

Break-even analysis is a short-term concept because, in the long run, all costs are variable.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848989>

Question 1644

When a privately owned company decides to distribute its shares to the general public, it goes through a process known as an initial public offering (IPO). List and describe at least three advantages and three disadvantages to having a firm's shares traded in the public equity market.

Answer: <https://biology-forums.com/index.php?topic=1848657>

Question 1645

AAC, Inc. is planning to issue \$5,000,000 in 180-day maturity notes paying a rate of 12 percent per annum. The company expects to incur costs of approximately \$20,000 in dealer placement fees and other expenses of issuing the commercial paper. The company plans to back up their commercial paper offering with a line of credit from a bank for \$5,000,000. The compensating balance requirement is 10 percent of the line of credit. The company normally maintains \$450,000 in its accounts with the bank. What is the effective cost of the commercial paper offering?

Answer: <https://biology-forums.com/index.php?topic=1849504>

Question 1646

A bond that matures in 5 years has less interest rate risk than a bond that matures in 25 years because regardless of changes in interest rates, the bond can be redeemed for face value 20 years earlier.

[b][True or False][b]

Answer: <https://biology-forums.com/index.php?topic=1848441>

Question 1647

A machine that costs \$1,500,000 has a 3-year life. It will generate after-tax annual cash flows of \$700,000 at the end of each year. It will be salvaged

for \$200,000 at the end of year 3. If your required rate of return for the project is 13%, what is the NPV of this investment?

- A) \$291,417
- B) \$400,000
- C) \$600,000
- D) \$338,395

Answer: <https://biology-forums.com/index.php?topic=1848770>

Question 1648

The capital budgeting manager for XYZ Corporation, a very profitable high technology company, completed her analysis of Project A assuming 5-year depreciation. Her accountant reviews the analysis and changes the depreciation method to 3-year depreciation. This change will

- A) increase the present value of the NCFs.
- B) decrease the present value of the NCFs.
- C) have no effect on the NCFs because depreciation is a non-cash expense.
- D) only change the NCFs if the useful life of the depreciable asset is greater than 5 years.

Answer: <https://biology-forums.com/index.php?topic=1848756>

Question 1649

You are considering the purchase of Zee Company stock. You anticipate that the company will pay dividends of \$3.50 per share next year and \$4.00 per share the following year. You believe that you can sell the stock for \$20.00 per share two years from now. If your required rate of return is 10 percent, what is the maximum price that you would pay for a share of Zee Company stock?

Answer: <https://biology-forums.com/index.php?topic=1848569>

Question 1650

AFB, Inc. purchases a new delivery van which is expected to increase cash flows for the next 10 years. AFB can finance the purchase with a standard 48-month vehicle loan, or by getting a 10-year loan from the bank. According to the hedging principle, AFB should

- A) use the 10-year financing in order to match the cash stream from the asset with the financing repayments.
- B) use the 48-month loan since it matches the type of asset with the type of loan.
- C) use either type of financing, but hedge the risk in the options market.
- D) avoid using either loan and finance the truck with current cash reserves to avoid interest expense.

Answer: <https://biology-forums.com/index.php?topic=1849422>

Question 1651

Moving downward along a PPF, the opportunity cost of another unit of the good measured along the horizontal axis decreases.

Answer: <https://biology-forums.com/index.php?topic=1850023>

Question 1652

You believe in the power of compounding and decide to save \$1 per day by avoiding the purchase of a soda. You deposit the \$1 at the end of each day in a bank account that pays 8% interest compounded daily. You are going to take a trip in 20 years with the money you have accumulated. How much money will you have in 20 years, assuming 365 days per year?

- A) \$7,500
- B) \$12,438
- C) \$18,032
- D) \$22,456

Answer: <https://biology-forums.com/index.php?topic=1848174>

Question 1653

The DEF Company is planning a \$64 million expansion. The expansion is to be financed by selling \$25.6 million in new debt and \$38.4 million in new common stock. The before-tax required rate of return on debt is 9 percent and the required rate of return on equity is 14 percent. If the company is in the 35 percent tax bracket, what is the firm's cost of capital?

- A) 8.92%
- B) 9.89%
- C) 11.50%
- D) 10.74%

Answer: <https://biology-forums.com/index.php?topic=1848676>

Question 1654

If markets were entirely efficient (perfect), which of the following would we conclude?

- A) There would be no inflation.
- B) Book value would be the same as market value.
- C) No firms would ever default on their bonds.

D) Market value and intrinsic value would be the same.

Answer: <https://biology-forums.com/index.php?topic=1848370>

Question 1655

Which of the following statements about the internal rate of return (IRR) is true?

- A) It has the most conservative and realistic reinvestment assumption.
- B) It never gives conflicting answers.
- C) It fully considers the time value of money.
- D) It is greater than the modified internal rate of return if the discount rate is higher than the IRR.

Answer: <https://biology-forums.com/index.php?topic=1848788>

Question 1656

Valley Flights, Inc. has a capital structure made up of 40% debt and 60% equity and a tax rate of 30%. A new issue of \$1,000 par bonds maturing in 20 years can be issued with a coupon of 9% at a price of \$1,098.18 with no flotation costs. The firm has no internal equity available for investment at this time, but can issue new common stock at a price of \$45. The next expected dividend on the stock is \$2.70. The dividend for the firm is expected to grow at a constant annual rate of 5% per year indefinitely. Flotation costs on new equity will be \$7.00 per share. The company has the following independent investment projects available:

Project Initial Outlay IRR

1 \$100,000 10%

2 \$10,008 5%

3 \$50,000 12.5%

Which of the above projects should the company take on?

- A) Project 3 only
- B) Projects 1 and 2
- C) Projects 1 and 3
- D) Projects 1, 2 and 3

Answer: <https://biology-forums.com/index.php?topic=1848698>

Question 1657

One of the causes of the recent financial crisis in the United States has been excessive risk taking due to underestimation of risk. How does this relate to shareholder wealth maximization and financial leverage? Can overestimation of risk also be detrimental?

Answer: <https://biology-forums.com/index.php?topic=1847552>