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| 1. Which of the following statements is correct? Assume everything else equal.   |  |  |  | | --- | --- | --- | |  | a. | Riskier assets always have higher market values. | |  | b. | Riskier assets are more valuable than (preferred to) less risky assets. | |  | c. | The sooner cash is received, the more valuable it is. | |  | d. | Investors generally prefer short-term, high-risk assets investments. | |  | e. | Investors generally receive higher returns on investments with low risk than investments with high risk. |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Finance is concerned with decisions about money. Financial decisions deal with how money is raised and used by businesses, governments, and individuals. See 1-1: What is Finance? | |  | b. | Incorrect. Finance is concerned with decisions about money. Financial decisions deal with how money is raised and used by businesses, governments, and individuals. See 1-1: What is Finance? | |  | c. | Correct. Assuming everything else equal, one of the concepts to consider to make sound financial decisions is that the sooner cash is received, the more valuable it is. See 1-1: What is Finance? | |  | d. | Incorrect. Finance is concerned with decisions about money. Financial decisions deal with how money is raised and used by businesses, governments, and individuals. See 1-1: What is Finance? | |  | e. | Incorrect. Finance is concerned with decisions about money. Financial decisions deal with how money is raised and used by businesses, governments, and individuals. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Investments|Finance | | *DATE CREATED:* | 12/12/2017 11:18 PM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 2. The success of financial institutions depends on \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | the understanding of the factors that cause interest rates and other returns in the financial markets to rise and fall | |  | b. | the environmentally responsible behavior of the shareholders of corporations | |  | c. | the expectations of long-term investors in the company | |  | d. | the awareness of the shareholders regarding the regulations that affect public corporations | |  | e. | the prior knowledge of the decisions that public corporations make concerning their cash flows |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. The success of a financial institution requires an understanding of factors that cause interest rates and other returns in the financial markets to rise and fall, regulations that affect such institutions, and various types of financial instruments, such as mortgages, automobile loans, and certificates of deposit, that financial institutions offer. See 1-1: What is Finance? | |  | b. | Incorrect. The success of a financial institution requires an understanding of regulations that affect such institutions, and various types of financial instruments, such as mortgages, automobile loans, and certificates of deposit, that financial institutions offer. See 1-1: What is Finance? | |  | c. | Incorrect. The success of financial institutions requires an understanding of regulations that affect such institutions, and various types of financial instruments, such as mortgages, automobile loans, and certificates of deposit, that financial institutions offer. See 1-1: What is Finance? | |  | d. | Incorrect. The success of financial institutions requires an understanding of regulations that affect such institutions, and various types of financial instruments, such as mortgages, automobile loans, and certificates of deposit, that financial institutions offer. See 1-1: What is Finance? | |  | e. | Incorrect. The success of financial institutions requires an understanding of regulations that affect such institutions, and various types of financial instruments, such as mortgages, automobile loans, and certificates of deposit, that financial institutions offer. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Financial institutions|Finance|Finance markets | | *DATE CREATED:* | 12/12/2017 11:23 PM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 3. Which of the following is true of the investment function of finance?   |  |  |  | | --- | --- | --- | |  | a. | The investment function focuses on socially responsible actions taken by corporations. | |  | b. | The investment function focuses on the values, risks, and returns associated with financial assets such as stocks and bonds. | |  | c. | The investment function focuses on the optimal mix of securities based on the environment-friendly behavior of the corporations. | |  | d. | The investment function focuses on regulations applicable to a public corporation. | |  | e. | The investment function focuses on additional information about the procedures used to construct and report financial statements. |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The investment function of finance focuses on the decisions made by businesses and individuals as they choose securities for their investment portfolios. See 1-1: What is Finance? | |  | b. | Correct. The investment function of finance focuses on determining the values, risks, and returns associated with such financial assets as stocks and bonds. See 1-1: What is Finance? | |  | c. | Incorrect. The investment function of finance focuses on the decisions made by businesses and individuals as they choose securities for their investment portfolios. See 1-1: What is Finance? | |  | d. | Incorrect. The investment function of finance focuses on the decisions made by businesses and individuals as they choose securities for their investment portfolios. See 1-1: What is Finance? | |  | e. | Incorrect. The investment function of finance focuses on the decisions made by businesses and individuals as they choose securities for their investment portfolios. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Finance|Investments | | *DATE CREATED:* | 12/12/2017 11:28 PM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 4. Identify a true statement about the financial services provided by organizations.   |  |  |  | | --- | --- | --- | |  | a. | Financial services organizations invest only in environmentally responsible public corporations. | |  | b. | Financial services include services provided by banks and insurance companies only. | |  | c. | Financial services organizations make investment decisions based solely on the socially responsible behavior of corporates. | |  | d. | Financial services organizations provide comparative cash flow positions of competing corporations to investors to help them with investment decisions. | |  | e. | Financial services organizations help individuals and companies determine how to invest money to achieve their financial goals. |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Financial services refer to functions provided by organizations that deal with the management of money. See 1-1: What is Finance? | |  | b. | Incorrect. Financial services refer to functions provided by organizations that deal with the management of money. See 1-1: What is Finance? | |  | c. | Incorrect. Financial services refer to functions provided by organizations that deal with the management of money. See 1-1: What is Finance? | |  | d. | Incorrect. Financial services refer to functions provided by organizations that deal with the management of money. See 1-1: What is Finance? | |  | e. | Correct. Persons working in financial services organizations help individuals and companies determine how to invest money to achieve their financial goals. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Financial services | | *DATE CREATED:* | 12/12/2017 11:31 PM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 5. Financial services refer to functions provided by organizations that \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | deal with the most efficient management of the human resources | |  | b. | ensure that regulations of the Sarbanes-Oxley Act are followed by public corporations | |  | c. | recommend the most environment friendly method of operations to a corporation | |  | d. | recommend the types of securities to be issued to finance plant expansions | |  | e. | deal with the management of money |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Financial services refer to functions provided by organizations that determine how to invest money to help individuals and companies achieve their financial goals. See 1-1: What is Finance? | |  | b. | Incorrect. Financial services refer to functions provided by organizations that determine how to invest money to help individuals and companies achieve their financial goals. See 1-1: What is Finance? | |  | c. | Incorrect. Financial services refer to functions provided by organizations that determine how to invest money to help individuals and companies achieve their financial goals. See 1-1: What is Finance? | |  | d. | Incorrect. Financial services refer to functions provided by organizations that determine how to invest money to help individuals and companies achieve their financial goals. See 1-1: What is Finance? | |  | e. | Correct. Financial services refer to functions provided by organizations that deal with the management of money. Persons who work in these organizations, help individuals and companies determine how to invest money to achieve their financial goals. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Financial services | | *DATE CREATED:* | 12/12/2017 11:35 PM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 6. Which of the following functions deals with the management of money?   |  |  |  | | --- | --- | --- | |  | a. | Marketing | |  | b. | Human resources | |  | c. | Financial services | |  | d. | Information systems | |  | e. | Research and development |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The management of money function helps individuals and companies achieve their goals such as home purchase, retirement, financial stability and sustainability, budgeting. See 1-1: What is Finance? | |  | b. | Incorrect. The management of money function helps individuals and companies achieve their goals such as home purchase, retirement, financial stability and sustainability, budgeting. See 1-1: What is Finance? | |  | c. | Correct. Financial services refer to functions provided by organizations that deal with the management of money. See 1-1: What is Finance? | |  | d. | Incorrect. The management of money function helps individuals and companies achieve their goals such as home purchase, retirement, financial stability and sustainability, budgeting. See 1-1: What is Finance? | |  | e. | Incorrect. The management of money function helps individuals and companies achieve their goals such as home purchase, retirement, financial stability and sustainability, budgeting. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Financial services | | *DATE CREATED:* | 12/12/2017 11:38 PM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 7. Which of the following is true of financial services provided by persons working in banks, insurance companies, and brokerage firms?   |  |  |  | | --- | --- | --- | |  | a. | Persons working in banks, insurance companies, and brokerage firms help corporations to decide the types of securities to be issued to finance plant expansion. | |  | b. | Persons working in banks, insurance companies, and brokerage firms help individuals and companies determine how to invest money to achieve their financial goals. | |  | c. | Persons working in banks, insurance companies, and brokerage firms help corporations fulfill the regulations required by the Sarbanes-Oxley Act. | |  | d. | Persons working in banks, insurance companies, and brokerage firms help public corporations follow environment-friendly practices. | |  | e. | Persons working in banks, insurance companies, and brokerage firms help corporations in framing their bylaws. |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Financial services refer to functions provided by organizations that deal with the management of money. See 1-1: What is Finance? | |  | b. | Correct. Persons working in banks, insurance companies, and brokerage firms help individuals and companies determine how to invest money to achieve their financial goals. See 1-1: What is Finance? | |  | c. | Incorrect. Financial services refer to functions provided by organizations that deal with the management of money. See 1-1: What is Finance? | |  | d. | Incorrect. Financial services refer to functions provided by organizations that deal with the management of money. See 1-1: What is Finance? | |  | e. | Incorrect. Financial services refer to functions provided by organizations that deal with the management of money. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Financial services | | *DATE CREATED:* | 12/12/2017 11:41 PM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 8. Which of the following is true of financial institutions?   |  |  |  | | --- | --- | --- | |  | a. | Financial institutions are the regulators of interest rates and other returns in financial markets. | |  | b. | Managers of financial institutions should have an understanding of factors that cause interest rates and other returns in the financial markets to rise and fall. | |  | c. | Financial institutions are accountable and responsible in reporting financial information for publicly-traded corporations. | |  | d. | Financial institutions are required by the Sarbanes-Oxley Act to disclose the environment-friendly measures taken by investment corporations. | |  | e. | Financial institutions require public corporations to adopt socially responsible work practices. |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The success of financial institutions requires an understanding of regulations that affect such institutions, and various types of financial instruments, such as mortgages, automobile loans, and certificates of deposit, that financial institutions offer. See 1-1: What is Finance? | |  | b. | Correct. The success of financial institutions requires an understanding of factors that cause interest rates and other returns in the financial markets to rise and fall, regulations that affect such institutions, and various types of financial instruments, such as mortgages, automobile loans, and certificates of deposit, that financial institutions offer. See 1-1: What is Finance? | |  | c. | Incorrect. The success of financial institutions requires an understanding of regulations that affect such institutions, and various types of financial instruments, such as mortgages, automobile loans, and certificates of deposit, that financial institutions offer. See 1-1: What is Finance? | |  | d. | Incorrect. The success of financial institutions requires an understanding of regulations that affect such institutions, and various types of financial instruments, such as mortgages, automobile loans, and certificates of deposit, that financial institutions offer. See 1-1: What is Finance? | |  | e. | Incorrect. The success of financial institutions requires an understanding of regulations that affect such institutions, and various types of financial instruments, such as mortgages, automobile loans, and certificates of deposit, that financial institutions offer. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Financial institutions|Financial markets | | *DATE CREATED:* | 12/12/2017 11:47 PM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 9. The investment function of finance helps in \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | making decisions regarding the dividends paid by a corporation | |  | b. | determining the expenses to be incurred to ensure that the behavior of an investment corporation is socially acceptable | |  | c. | determining the values, risks, and returns associated with such financial assets as stocks and bonds | |  | d. | ensuring that 50 percent of all investments in a portfolio are in environment-friendly corporations | |  | e. | ensuring that the corporations payout maximum dividends per share |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The investment function of finance determines the optimal mix of securities that should be held in a portfolio of investments, such as a retirement fund. See 1-1: What is Finance? | |  | b. | Incorrect. The investment function of finance determines the optimal mix of securities that should be held in a portfolio of investments, such as a retirement fund. See 1-1: What is Finance? | |  | c. | Correct. The investment function of finance determines the values, risks, and returns associated with such financial assets as stocks and bonds. See 1-1: What is Finance? | |  | d. | Incorrect. The investment function of finance determines the optimal mix of securities that should be held in a portfolio of investments, such as a retirement fund. See 1-1: What is Finance? | |  | e. | Incorrect. The investment function of finance determines the optimal mix of securities that should be held in a portfolio of investments, such as a retirement fund. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Investments | | *DATE CREATED:* | 12/12/2017 11:50 PM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 10. The success of financial institutions requires an understanding of \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | regulations regarding the maximization of wealth applicable to the corporations | |  | b. | regulations that affect these financial institutions | |  | c. | the environment-friendly manufacturing methods adopted by various corporations | |  | d. | the socially responsible behavior required to be demonstrated by these institutions | |  | e. | their accountability in reporting the financial information for a publicly-traded company |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The success of financial institutions requires an understanding of factors that cause interest rates and other returns in the financial markets to rise and fall. See 1-1: What is Finance? | |  | b. | Correct. The success of financial institutions requires an understanding of factors that cause interest rates and other returns in the financial markets to rise and fall, regulations that affect such institutions, and various types of financial instruments, such as mortgages, automobile loans, and certificates of deposit, that financial institutions offer. See 1-1: What is Finance? | |  | c. | Incorrect. The success of financial institutions requires an understanding of factors that cause interest rates and other returns in the financial markets to rise and fall. See 1-1: What is Finance? | |  | d. | Incorrect. The success of financial institutions requires an understanding of factors that cause interest rates and other returns in the financial markets to rise and fall. See 1-1: What is Finance? | |  | e. | Incorrect. The success of financial institutions requires an understanding of factors that cause interest rates and other returns in the financial markets to rise and fall. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Financial institutions | | *DATE CREATED:* | 12/12/2017 11:53 PM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 11. The treasurer of a company is a key subordinate of the \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | controller | |  | b. | financial vice president | |  | c. | chief executive officer | |  | d. | credit manager | |  | e. | director of capital budgeting |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. In most firms, the treasurer has direct responsibility for managing the firm's cash and marketable securities. See 1-1: What is Finance? | |  | b. | Correct. The financial vice president's key subordinates are the treasurer and the controller. See 1-1: What is Finance? | |  | c. | Incorrect. In most firms, the treasurer has direct responsibility for managing the firm's cash and marketable securities. See 1-1: What is Finance? | |  | d. | Incorrect. In most firms, the treasurer has direct responsibility for managing the firm's cash and marketable securities. See 1-1: What is Finance? | |  | e. | Incorrect. In most firms, the treasurer has direct responsibility for managing the firm's cash and marketable securities. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Remember | | *OTHER:* | Organizational structure | | *DATE CREATED:* | 12/12/2017 11:56 PM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 12. The credit manager is supervised by the \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | treasurer | |  | b. | inventory manager | |  | c. | director of capital budgeting | |  | d. | vice president of finance | |  | e. | controller |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. The treasurer supervises the credit manager, the inventory manager, and the director of capital budgeting, who analyzes decisions related to investments in fixed assets. See 1-1: What is Finance? | |  | b. | Incorrect. The financial vice president's key subordinates are the treasurer and the controller. In most firms, the treasurer has direct responsibility for managing the firm's cash and marketable securities. The controller is responsible for the activities of the accounting and tax departments. See 1-1: What is Finance? | |  | c. | Incorrect. The financial vice president's key subordinates are the treasurer and the controller. In most firms, the treasurer has direct responsibility for managing the firm's cash and marketable securities. The controller is responsible for the activities of the accounting and tax departments. See 1-1: What is Finance? | |  | d. | Incorrect. The financial vice president's key subordinates are the treasurer and the controller. In most firms, the treasurer has direct responsibility for managing the firm's cash and marketable securities. The controller is responsible for the activities of the accounting and tax departments. See 1-1: What is Finance? | |  | e. | Incorrect. The financial vice president's key subordinates are the treasurer and the controller. In most firms, the treasurer has direct responsibility for managing the firm's cash and marketable securities. The controller is responsible for the activities of the accounting and tax departments. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Organizational structure | | *DATE CREATED:* | 12/13/2017 12:00 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 13. The accounting and tax departments are the responsibility of the \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | treasurer | |  | b. | inventory manager | |  | c. | director of capital budgeting | |  | d. | vice president of finance | |  | e. | controller |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Although organizational structures vary from company to company, the chief financial officer (CFO), who often has the title of vice president of finance, generally reports to the president. The financial vice president's key subordinates are the treasurer and the controller. See 1-1: What is Finance? | |  | b. | Incorrect. Although organizational structures vary from company to company, the chief financial officer (CFO), who often has the title of vice president of finance, generally reports to the president. The financial vice president's key subordinates are the treasurer and the controller. See 1-1: What is Finance? | |  | c. | Incorrect. Although organizational structures vary from company to company, the chief financial officer (CFO), who often has the title of vice president of finance, generally reports to the president. The financial vice president's key subordinates are the treasurer and the controller. See 1-1: What is Finance? | |  | d. | Incorrect. Although organizational structures vary from company to company, the chief financial officer (CFO), who often has the title of vice president of finance, generally reports to the president. The financial vice president's key subordinates are the treasurer and the controller. See 1-1: What is Finance? | |  | e. | Correct. The financial vice president's key subordinates are the treasurer and the controller. The controller is responsible for the activities of the accounting and tax departments. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Organizational structure | | *DATE CREATED:* | 12/13/2017 12:03 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 14. Everything else equal, including firm size, dollar sales, type of product sold, and so forth, the primary difference between proprietorship and partnership business forms is that \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | a partnership has more owners than a proprietorship | |  | b. | the combined personal liability associated with a partnership is significantly less than the combined personal liability associated with a proprietorship | |  | c. | a partnership is generally easier to form than a proprietorship | |  | d. | the annual growth rate of a proprietorship is limited by law, whereas the growth rate of a partnership is always potentially unlimited | |  | e. | many more businesses are formed as partnerships than proprietorships |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. A partnership is the same as a proprietorship, except that it has two or more owners. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. Starting a proprietorship is generally as easy as just beginning business operations. Partnerships can operate under different degrees of formality, ranging from informal, oral understandings to formal agreements filed with the secretary of the state in which the partnership does business. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. Starting a proprietorship is generally as easy as just beginning business operations. Partnerships can operate under different degrees of formality, ranging from informal, oral understandings to formal agreements filed with the secretary of the state in which the partnership does business. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. Starting a proprietorship is generally as easy as just beginning business operations. Partnerships can operate under different degrees of formality, ranging from informal, oral understandings to formal agreements filed with the secretary of the state in which the partnership does business. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. Starting a proprietorship is generally as easy as just beginning business operations. Partnerships can operate under different degrees of formality, ranging from informal, oral understandings to formal agreements filed with the secretary of the state in which the partnership does business. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Business ownership forms|Sole proprietorships|Partnerships | | *DATE CREATED:* | 12/13/2017 12:06 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 15. Which of the following represents a difference between an S corporation and a limited liability company (LLC)?   |  |  |  | | --- | --- | --- | |  | a. | An S corporation can have more than one type of stock outstanding, whereas an LLC can have only one type of stock outstanding. | |  | b. | An S corporation can choose to be taxed as a corporation or as a partnership, whereas an LLC is taxed as a corporation only. | |  | c. | An S corporation is subject to unlimited personal liability of the owners, whereas an LLC is subject to limited personal liability. | |  | d. | An S corporation has no more than 100 stockholders, whereas an LLC can have more than 100 owners (members). | |  | e. | An S corporation's business income is subject to double taxation, whereas an LLC's business income is taxed only once. |  |  |  | | --- | --- | | *ANSWER:* | d | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. A limited liability company (LLC) combines the features of a corporation and a partnership. A domestic corporation that meets the number of stockholders condition and types of stock outstanding can elect to file taxes as an S corporation. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. A limited liability company (LLC) combines the features of a corporation and a partnership. A domestic corporation that meets the number of stockholders condition and types of stock outstanding can elect to file taxes as an S corporation. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. A limited liability company (LLC) combines the features of a corporation and a partnership. A domestic corporation that meets the number of stockholders condition and types of stock outstanding can elect to file taxes as an S corporation. See 1-2: Alternative Forms of Business Organization | |  | d. | Correct. One of the major differences between an S corporation and an LLC is that an LLC can have more than 100 stockholders (members) and more than one type of stock (membership interest). See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. A limited liability company (LLC) combines the features of a corporation and a partnership. A domestic corporation that meets the number of stockholders condition and types of stock outstanding can elect to file taxes as an S corporation. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Limited liability companies|S corporations | | *DATE CREATED:* | 12/13/2017 12:10 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 16. Which of the following statements is true of corporate bylaws?   |  |  |  | | --- | --- | --- | |  | a. | Corporate bylaws are a set of rules drawn up by the state to enable managers to run the firm in accordance with state laws. | |  | b. | Procedures for electing corporate directors are contained in corporate bylaws. | |  | c. | Procedures that govern changes in corporate bylaws are contained in the corporate charter. | |  | d. | To open their doors and start their operations, corporations are legally required only to file their bylaws with the appropriate agency in the state where they incorporate. | |  | e. | The declaration of the activities that a firm will pursue and the number of directors are included in the corporate bylaws. |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Setting up a corporation is more complex and time-consuming than setting up a proprietorship or a partnership. When a corporation is created, a corporate charter and a set of rules must be drawn up by the founder(s). See 1-2: Alternative Forms of Business Organization | |  | b. | Correct. Bylaws are a set of rules drawn up by the founders of a corporation that indicates how the company is to be governed and includes procedures for electing directors, rights of stockholders, and how to change the bylaws when necessary. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. Setting up a corporation is more complex and time-consuming than setting up a proprietorship or a partnership. When a corporation is created, a corporate charter and a set of rules must be drawn up by the founder(s). See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. Setting up a corporation is more complex and time-consuming than setting up a proprietorship or a partnership. When a corporation is created, a corporate charter and a set of rules must be drawn up by the founder(s). See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. Setting up a corporation is more complex and time-consuming than setting up a proprietorship or a partnership. When a corporation is created, a corporate charter and a set of rules must be drawn up by the founder(s). See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Corporations | | *DATE CREATED:* | 12/13/2017 12:20 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 17. Which of the following statements is correct?   |  |  |  | | --- | --- | --- | |  | a. | A hostile takeover is the primary method of transferring ownership interest in a corporation. | |  | b. | The corporation is a legal entity created by the state and is a direct extension of the legal status of its owners and managers, that is, the owners and managers are the corporation. | |  | c. | Unlimited liability and limited life are two key advantages of the corporate form over other forms of business organization. | |  | d. | In part due to limited liability and ease of ownership transfer, corporations have less trouble raising money in financial markets than other organizational forms. | |  | e. | Although stockholders of the corporation are insulated by limited legal liability, the legal status of the corporation does not protect the firm's managers in the same way. |  |  |  | | --- | --- | | *ANSWER:* | d | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Even though the corporate form of business offers significant advantages over proprietorships and partnerships, setting up a corporation is more complex and time-consuming than a proprietorship or a partnership. Corporations must file periodic state and federal reports that are not required of other forms of businesses. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. Even though the corporate form of business offers significant advantages over proprietorships and partnerships, setting up a corporation is more complex and time-consuming than a proprietorship or a partnership. Corporations must file periodic state and federal reports that are not required of other forms of businesses. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. Even though the corporate form of business offers significant advantages over proprietorships and partnerships, setting up a corporation is more complex and time-consuming than a proprietorship or a partnership. Corporations must file periodic state and federal reports that are not required of other forms of businesses. See 1-2: Alternative Forms of Business Organization | |  | d. | Correct. Limited liability, easy transferability of ownership interest, and unlimited life make it much easier for corporations than for proprietorships or partnerships to raise money in the financial markets. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. Even though the corporate form of business offers significant advantages over proprietorships and partnerships, setting up a corporation is more complex and time-consuming than a proprietorship or a partnership. Corporations must file periodic state and federal reports that are not required of other forms of businesses. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Corporations | | *DATE CREATED:* | 12/13/2017 12:24 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 18. Which of the following statements is correct?   |  |  |  | | --- | --- | --- | |  | a. | In a partnership, liability for other partners' misdeeds includes but is limited to the amount a particular partner has invested in the business. | |  | b. | Partnerships must be formed according to specific rules, which include the filing of a formal written agreement with state authorities where the partnership does business. | |  | c. | A fast growth company would be more likely to set up a partnership for its business organization than would a slow-growth company. | |  | d. | Under partnership law, if any partner is unable to meet his or her pro rata claim in the event the partnership goes bankrupt, the remaining partners must make good on the unsatisfied claims. | |  | e. | A major disadvantage of a partnership as a form of business organization is the high cost and practical difficulty of its formation. |  |  |  | | --- | --- | | *ANSWER:* | d | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. A partnership has two or more owners. Partnerships can operate under different degrees of formality. The advantages of a partnership are the same as those of a proprietorship, except that most partnerships have more sources available for raising funds. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. A partnership has two or more owners. Partnerships can operate under different degrees of formality. The advantages of a partnership are the same as those of a proprietorship, except that most partnerships have more sources available for raising funds. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. A partnership has two or more owners. Partnerships can operate under different degrees of formality. The advantages of a partnership are the same as those of a proprietorship, except that most partnerships have more sources available for raising funds. See 1-2: Alternative Forms of Business Organization | |  | d. | Correct. Under partnership law, each partner is liable for the debts of the business. Therefore, if any partner is unable to meet his or her pro rata claim in the event the partnership goes bankrupt, the remaining partners must make good on the unsatisfied claims, drawing on their personal assets if necessary. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. A partnership has two or more owners. Partnerships can operate under different degrees of formality. The advantages of a partnership are the same as those of a proprietorship, except that most partnerships have more sources available for raising funds. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Partnerships | | *DATE CREATED:* | 12/13/2017 12:27 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 19. Which of the following statements is correct?   |  |  |  | | --- | --- | --- | |  | a. | A major disadvantage of a regular partnership or a corporation as a form of business is the fact that they do not offer their owners limited liability, whereas proprietorships do. | |  | b. | An advantage of the corporate form for many businesses is the fact that the corporate tax rate always exceeds the personal tax rate, which is the rate at which proprietorships and partnerships are taxed. | |  | c. | There are more partnerships and proprietorships than corporations in the United States, but corporations produce more goods and services than do other forms of business. | |  | d. | Because partnerships and proprietorships enjoy the benefits of limited liability, easy transferability of ownership interest, unlimited life, and favorable tax status relative to the situation for corporations, most large businesses choose to be set up as partnerships and proprietorships. | |  | e. | Because lawyers have the incorporation process so automated (e.g., word processors for drawing up the necessary papers), it is less expensive to form a corporation than to form a proprietorship or partnership. |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. A proprietorship is an unincorporated business owned by one individual. A partnership is the same as a proprietorship, except that it has two or more owners. A corporation is separate and distinct from its owners and managers. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. A proprietorship is an unincorporated business owned by one individual. A partnership is the same as a proprietorship, except that it has two or more owners. A corporation is separate and distinct from its owners and managers. See 1-2: Alternative Forms of Business Organization | |  | c. | Correct. In the United States 70–75 percent of businesses are operated as proprietorships, 9–12 percent are partnerships, and the remaining 15–20 percent are corporations. Based on the dollar value of sales, however, approximately 82 percent of all business is conducted by corporations, while the remaining 18 percent is generated by proprietorships (3–4 percent) and partnerships (14–15 percent). See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. A proprietorship is an unincorporated business owned by one individual. A partnership is the same as a proprietorship, except that it has two or more owners. A corporation is separate and distinct from its owners and managers. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. A proprietorship is an unincorporated business owned by one individual. A partnership is the same as a proprietorship, except that it has two or more owners. A corporation is separate and distinct from its owners and managers. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Sole proprietorships|Partnerships|Corporations | | *DATE CREATED:* | 12/13/2017 12:30 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 20. Which of the following statements about the corporate form of business organization is correct?   |  |  |  | | --- | --- | --- | |  | a. | A corporation has the legal authority to act like a person when conducting business. | |  | b. | In the United States, corporations generate a lower percentage of total annual sales than either partnerships or proprietorships. | |  | c. | Corporations generally are smaller than either partnerships or proprietorships. | |  | d. | One of the most important features of the corporate form of business organization is that stockholders have unlimited liability. | |  | e. | Corporations can operate under different degrees of formality, ranging from informal, oral understandings to formal agreements filed with the secretary of the state in which the corporations do business. |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. A corporation is a legal entity created by a state, which means that a corporation has the legal authority to act like a person when conducting business. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. Setting up a corporation is more complex and time-consuming than a proprietorship or a partnership. When a corporation is created, a corporate charter and a set of rules must be drawn up by the founder(s). See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. Setting up a corporation is more complex and time-consuming than a proprietorship or a partnership. When a corporation is created, a corporate charter and a set of rules must be drawn up by the founder(s). See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. Setting up a corporation is more complex and time-consuming than a proprietorship or a partnership. When a corporation is created, a corporate charter and a set of rules must be drawn up by the founder(s). See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. Setting up a corporation is more complex and time-consuming than a proprietorship or a partnership. When a corporation is created, a corporate charter and a set of rules must be drawn up by the founder(s). See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Corporations | | *DATE CREATED:* | 12/13/2017 12:34 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 21. In the United States, the most common form of business is the \_\_\_\_\_, and the form of business that generates most of the sales and profits is the \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | corporation; corporation | |  | b. | corporation; proprietorship | |  | c. | proprietorship; partnership | |  | d. | proprietorship; corporation | |  | e. | corporation; partnership |  |  |  | | --- | --- | | *ANSWER:* | d | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. A proprietorship is an unincorporated business owned by one individual. A partnership has two or more owners. A corporation is a legal entity created by a state, which means that a corporation has the legal authority to act like a person when conducting business. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. A proprietorship is an unincorporated business owned by one individual. A partnership has two or more owners. A corporation is a legal entity created by a state, which means that a corporation has the legal authority to act like a person when conducting business. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. A proprietorship is an unincorporated business owned by one individual. A partnership has two or more owners. A corporation is a legal entity created by a state, which means that a corporation has the legal authority to act like a person when conducting business. See 1-2: Alternative Forms of Business Organization | |  | d. | Correct. In the United States, 70–75 percent of businesses are operated as proprietorships, 9–12 percent are partnerships, and the remaining 15–20 percent are corporations. Based on the dollar value of sales, however, approximately 82 percent of all business is conducted by corporations, while the remaining 18 percent is generated by proprietorships (3–4 percent) and partnerships (14–15 percent). See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. A proprietorship is an unincorporated business owned by one individual. A partnership has two or more owners. A corporation is a legal entity created by a state, which means that a corporation has the legal authority to act like a person when conducting business. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Remember | | *OTHER:* | Partnerships|Sole proprietorships|Corporations | | *DATE CREATED:* | 12/13/2017 12:36 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 22. Which of the following is a disadvantage of the corporate form of business?   |  |  |  | | --- | --- | --- | |  | a. | A corporation faces difficulty in attracting substantial amounts of funds. | |  | b. | The owners of a corporation are subject to unlimited personal liability for the business' debts. | |  | c. | Setting up a corporation is more complex and time-consuming than setting up a proprietorship or a partnership. | |  | d. | A corporation is said to have limited life. | |  | e. | Ownership interests cannot be transferred as easily as proprietorship or partnership interests. |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. When a corporation is created, a corporate charter must be filed with the secretary of the state in which the firm incorporates and a set of rules, called bylaws, must be drawn by founders. In addition, a corporation is required to file periodic state and federal reports that are not required of other forms of businesses. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. When a corporation is created, a corporate charter must be filed with the secretary of the state in which the firm incorporates and a set of rules, called bylaws, must be drawn by founders. In addition, a corporation is required to file periodic state and federal reports that are not required of other forms of businesses. See 1-2: Alternative Forms of Business Organization | |  | c. | Correct. Setting up a corporation is more complex and time-consuming than setting up a proprietorship or a partnership. When a corporation is created, a corporate charter and a set of rules must be drawn up by the founder(s). In addition, corporations must file periodic state and federal reports that are not required of other forms of businesses. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. When a corporation is created, a corporate charter must be filed with the secretary of the state in which the firm incorporates and a set of rules, called bylaws, must be drawn by founders. In addition, a corporation is required to file periodic state and federal reports that are not required of other forms of businesses. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. When a corporation is created, a corporate charter must be filed with the secretary of the state in which the firm incorporates and a set of rules, called bylaws, must be drawn by founders. In addition, a corporation is required to file periodic state and federal reports that are not required of other forms of businesses. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Corporations|Sole proprietorships|Partnerships | | *DATE CREATED:* | 12/13/2017 12:39 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 23. Compared to corporations, what is the primary disadvantage of partnerships as a form of business organization?   |  |  |  | | --- | --- | --- | |  | a. | The tax rates applied to partnerships are higher than the tax rates applied to corporations. | |  | b. | Any dividends paid to the owners of a partnership business are taxed twice, once at the partnership level and once at the personal, or individual level. | |  | c. | Partnerships generally are more complex to form (start up) than corporations. | |  | d. | Partnerships have unlimited lives whereas corporations do not. | |  | e. | The owners of a partnership, that is, the partners, have unlimited liability when it comes to business obligations whereas the owners of a corporation have limited liability. |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. A partnership has two or more owners. Partnerships can operate under different degrees of formality, ranging from informal, oral understandings to formal agreements filed with the secretary of the state in which the partnership does business. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. A partnership has two or more owners. Partnerships can operate under different degrees of formality, ranging from informal, oral understandings to formal agreements filed with the secretary of the state in which the partnership does business. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. A partnership has two or more owners. Partnerships can operate under different degrees of formality, ranging from informal, oral understandings to formal agreements filed with the secretary of the state in which the partnership does business. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. A partnership has two or more owners. Partnerships can operate under different degrees of formality, ranging from informal, oral understandings to formal agreements filed with the secretary of the state in which the partnership does business. See 1-2: Alternative Forms of Business Organization | |  | e. | Correct. Under partnership law, each partner is liable for the debts of the business, whereas a corporation offers its owners limited liability. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Partnerships|Corporations | | *DATE CREATED:* | 12/13/2017 12:43 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 24. Which of the following forms of business offers limited personal liability to owners as well as the choice to be taxed as either a corporation or as a partnership?   |  |  |  | | --- | --- | --- | |  | a. | Limited liability partnership | |  | b. | Limited liability company | |  | c. | Corporation | |  | d. | Proprietorship | |  | e. | Partnership |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Alternative business forms that include some of the advantages, and avoid some of the disadvantages of the major forms of business have evolved over time. These alternative forms of business combine some characteristics of proprietorships and partnerships with some characteristics of corporations. See 1-2: Alternative Forms of Business Organization | |  | b. | Correct. A limited liability company (LLC) offers the limited personal liability associated with a corporation, but the company can choose to be taxed as either a corporation or as a partnership. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. Alternative business forms that include some of the advantages, and avoid some of the disadvantages of the major forms of business have evolved over time. These alternative forms of business combine some characteristics of proprietorships and partnerships with some characteristics of corporations. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. Alternative business forms that include some of the advantages, and avoid some of the disadvantages of the major forms of business have evolved over time. These alternative forms of business combine some characteristics of proprietorships and partnerships with some characteristics of corporations. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. Alternative business forms that include some of the advantages, and avoid some of the disadvantages of the major forms of business have evolved over time. These alternative forms of business combine some characteristics of proprietorships and partnerships with some characteristics of corporations. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Remember | | *OTHER:* | Limited liability companies|Corporations|Partnerships|Sole proprietorships | | *DATE CREATED:* | 12/13/2017 12:46 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 25. Identify a true statement about a limited liability company (LLC).   |  |  |  | | --- | --- | --- | |  | a. | A limited liability company can be taxed as a corporation only. | |  | b. | One of the owners of a limited liability company must be designated as a general partner with unlimited personal financial liability. | |  | c. | A limited liability company can have no more than 100 stockholders. | |  | d. | Only one of the owners of a limited liability company can participate in the management of the business. | |  | e. | A limited liability company can have more than one type of stock (ownership interest) outstanding. |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | |  | e. | Correct. An LLC can have more than 100 stockholders (members) and more than one type of stock (membership interest). See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Limited liability companies | | *DATE CREATED:* | 12/13/2017 12:49 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 26. If a limited liability company (LLC) is taxed like a partnership, \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | income passes through to the owners | |  | b. | income is taxed twice | |  | c. | the owners have unlimited tax liability | |  | d. | the shareholders pay taxes on dividends they receive after the company pays taxes on the money that is distributed | |  | e. | dividends are taxed at the capital gain rate |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. If a limited liability company (LLC) is taxed like a partnership, income passes through to the owners. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Limited liability companies | | *DATE CREATED:* | 12/13/2017 12:52 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 27. Identify a true statement about a limited liability company (LLC).   |  |  |  | | --- | --- | --- | |  | a. | A limited liability company (LLC) has a maximum of 100 stockholders (owners). | |  | b. | A limited liability company (LLC) offers the limited personal liability associated with a corporation. | |  | c. | A limited liability company (LLC) has only one type of stock (membership interest). | |  | d. | A limited liability company (LLC) is taxed as a partnership, which means the stockholders are subject to double taxation. | |  | e. | A limited liability company (LLC) is liable for the negligence, irresponsibility, or similar acts committed by any partner. |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | |  | b. | Correct. A limited liability company (LLC) offers the limited personal liability associated with a corporation, but the company can choose to be taxed as either a corporation or as a partnership. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. A limited liability company (LLC) is a relatively new business form that combines the features of a corporation and a partnership. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Remember | | *OTHER:* | Limited liability companies | | *DATE CREATED:* | 12/13/2017 12:54 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 28. Which of the following is true of a general partner of a limited liability partnership (LLP)?   |  |  |  | | --- | --- | --- | |  | a. | A general partner of a limited liability partnership (LLP) is fully personally liable for all business debts. | |  | b. | A general partner of a limited liability partnership (LLP) cannot participate in the management of the business. | |  | c. | A general partner of a limited liability partnership (LLP) is considered as an investor only. | |  | d. | A general partner of a limited liability partnership (LLP) is liable only to the extent of his/her investment in the partnership. | |  | e. | A general partner of a limited liability partnership (LLP) is taxed for the limited partners' share of the partnership's income. |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability that general partners face. With this type of LLP, at least one partner is designated a general partner and the others are limited partners. The general partners remain fully personally liable for all business debts. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Remember | | *OTHER:* | Limited liability partnerships | | *DATE CREATED:* | 12/13/2017 12:57 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 29. A limited partner in a limited liability partnership (LLP) is \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | responsible for the general management of the business | |  | b. | liable for only the amount invested in the partnership | |  | c. | responsible for negligence, irresponsibility, or similar acts committed by any other partner | |  | d. | liable to pay tax on the general partner's share of partnership income | |  | e. | personally liable for the partnership debts |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. With this type of LLP, at least one partner is designated a general partner and the others are limited partners. See 1-2: Alternative Forms of Business Organization | |  | b. | Correct. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability that general partners face. With this type of LLP, at least one partner is designated a general partner and the others are limited partners. The general partners remain fully personally liable for all business debts. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. With this type of LLP, at least one partner is designated a general partner and the others are limited partners. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. With this type of LLP, at least one partner is designated a general partner and the others are limited partners. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. With this type of LLP, at least one partner is designated a general partner and the others are limited partners. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Limited liability partnerships | | *DATE CREATED:* | 12/13/2017 1:00 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 30. Identify the correct statement about a limited liability partnership (LLP).   |  |  |  | | --- | --- | --- | |  | a. | The controller of a limited liability partnership is responsible for the negligence and irresponsibility of the general partners. | |  | b. | A limited partner of a limited liability partnership is responsible for the general management of the partnership business. | |  | c. | A limited partner of a limited liability partnership is liable to pay tax on all the partnership income. | |  | d. | A general partner of a limited liability partnership is personally liable for all business debts. | |  | e. | A limited partner of a limited liability partnership is responsible for the negligence and irresponsibility of all general partners. |  |  |  | | --- | --- | | *ANSWER:* | d | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. With this type of LLP, at least one partner is designated a general partner and the others are limited partners. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. With this type of LLP, at least one partner is designated a general partner and the others are limited partners. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. With this type of LLP, at least one partner is designated a general partner and the others are limited partners. See 1-2: Alternative Forms of Business Organization | |  | d. | Correct. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability that general partners face. With this type of LLP, at least one partner is designated a general partner and the others are limited partners. The general partners remain fully personally liable for all business debts. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. In some states, an LLP can be established that permits persons to invest in partnerships without exposure to the personal liability. With this type of LLP, at least one partner is designated a general partner and the others are limited partners. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Limited liability partnerships | | *DATE CREATED:* | 12/13/2017 1:03 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 31. It is possible to limit the liability faced by some of the partners in a partnership form of business by establishing a \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | limited liability partnership (LLP) | |  | b. | general partnership | |  | c. | Proprietorship | |  | d. | concentrated partnership | |  | e. | limited accumulation partnership |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. Alternative business forms that include some of the advantages, and avoid some of the disadvantages, of the three major forms of business have evolved over time. It is possible to limit the liability faced by some of the partners in a business by establishing a limited liability partnership (LLP). See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. Alternative business forms that include some of the advantages, and avoid some of the disadvantages, of the three major forms of business have evolved over time. These alternative forms of business combine some characteristics of proprietorships and partnerships with some characteristics of corporations. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. Alternative business forms that include some of the advantages, and avoid some of the disadvantages, of the three major forms of business have evolved over time. These alternative forms of business combine some characteristics of proprietorships and partnerships with some characteristics of corporations. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. Alternative business forms that include some of the advantages, and avoid some of the disadvantages, of the three major forms of business have evolved over time. These alternative forms of business combine some characteristics of proprietorships and partnerships with some characteristics of corporations. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. Alternative business forms that include some of the advantages, and avoid some of the disadvantages, of the three major forms of business have evolved over time. These alternative forms of business combine some characteristics of proprietorships and partnerships with some characteristics of corporations. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Limited liability partnership|Partnerships|Sole proprietorships | | *DATE CREATED:* | 12/13/2017 1:07 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 32. Identify a true statement about an S corporation.   |  |  |  | | --- | --- | --- | |  | a. | An S Corporation is required to have more than 100 stockholders. | |  | b. | An S Corporation is required to have more than one type of stock outstanding. | |  | c. | The income of an S Corporation passes through the company to the owners. | |  | d. | The income of an S Corporation is taxed twice, at the corporate level and the owner level. | |  | e. | The income of an S Corporation is taxed as capital gains to the owners. |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. If a corporation elects the S corporation status, then its income is taxed the same as income earned by proprietorships and partnerships. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. If a corporation elects the S corporation status, then its income is taxed the same as income earned by proprietorships and partnerships. See 1-2: Alternative Forms of Business Organization | |  | c. | Correct. If a corporation elects the S corporation status, then its income passes through the company to the owners so that it is taxed only once. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. If a corporation elects the S corporation status, then its income is taxed the same as income earned by proprietorships and partnerships. See 1-2: Alternative Forms of Business Organization | |  | e. | Incorrect. If a corporation elects the S corporation status, then its income is taxed the same as income earned by proprietorships and partnerships. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | S corporations | | *DATE CREATED:* | 12/13/2017 1:09 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 33. Which of the following is a feature of an S Corporation?   |  |  |  | | --- | --- | --- | |  | a. | An S Corporation is required to have more than 100 stockholders. | |  | b. | An S Corporation is required to have more than one type of stock outstanding. | |  | c. | The income of an S Corporation is taxed as capital gains to the owners. | |  | d. | The income of an S Corporation is taxed twice, at the corporate level and the owner level. | |  | e. | The income of an S Corporation is taxed the same as income earned by proprietorships and partnerships. |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. If a corporation elects the S corporation status, then its income passes through the company to the owners. See 1-2: Alternative Forms of Business Organization | |  | b. | Incorrect. If a corporation elects the S corporation status, then its income passes through the company to the owners. See 1-2: Alternative Forms of Business Organization | |  | c. | Incorrect. If a corporation elects the S corporation status, then its income passes through the company to the owners. See 1-2: Alternative Forms of Business Organization | |  | d. | Incorrect. If a corporation elects the S corporation status, then its income passes through the company to the owners. See 1-2: Alternative Forms of Business Organization | |  | e. | Correct. If a corporation elects the S corporation status, then its income is taxed the same as income earned by proprietorships and partnerships. Its income passes through the company to the owners so that it is taxed only once. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | S corporations | | *DATE CREATED:* | 12/13/2017 1:12 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 34. The primary goal of a publicly-owned firm interested in serving its stockholders should be to \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | minimize the debt used by a firm | |  | b. | maximize expected earnings per share (EPS) | |  | c. | minimize the chances of losses | |  | d. | maximize the stock price per share | |  | e. | maximize expected net income |  |  |  | | --- | --- | | *ANSWER:* | d | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Investors want to increase their wealth positions as much as possible. Management's primary goal is stockholder wealth maximization. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. Investors want to increase their wealth positions as much as possible. Management's primary goal is stockholder wealth maximization. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. Investors want to increase their wealth positions as much as possible. Management's primary goal is stockholder wealth maximization. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Correct. Management's primary goal is stockholder wealth maximization, which translates into maximizing the value of the firm as measured by the price of its common stock. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. Investors want to increase their wealth positions as much as possible. Management's primary goal is stockholder wealth maximization. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Stockholders|Financial performance|Wealth maximization | | *DATE CREATED:* | 12/13/2017 1:15 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 35. Institutional investors can ensure that a corporation pursues goals that are in their best interest by \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | binding the management with stockholder-sponsored proposals | |  | b. | ensuring that the management is working toward maximizing current earnings | |  | c. | compensating managers of the corporation on the basis of the firm's performance in the short run | |  | d. | implementing policies that encourage management to make decisions that maximize managers' wealth | |  | e. | monitoring its financial performance to ensure that managers pursue the goal of wealth maximization |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Institutional investors ensure that a corporation pursues goals that are in their best interest and increase their wealth positions as much as possible. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. Institutional investors ensure that a corporation pursues goals that are in their best interest and increase their wealth positions as much as possible. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. Institutional investors ensure that a corporation pursues goals that are in their best interest and increase their wealth positions as much as possible. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. Institutional investors ensure that a corporation pursues goals that are in their best interest and increase their wealth positions as much as possible. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Correct. Institutional investors can ensure that a corporation pursues goals that are in their best interest by monitoring its financial performance to ensure that managers pursue the goal of wealth maximization. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Stockholders|Executive compensation|Wealth maximization | | *DATE CREATED:* | 12/13/2017 1:19 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 36. Which of the following should be the primary goal pursued by the financial manager of a firm?   |  |  |  | | --- | --- | --- | |  | a. | Maximizing net income (profits) | |  | b. | Maximizing the firm's net worth, or book value | |  | c. | Maximizing dividends paid to common stockholders | |  | d. | Minimizing variable operating expenses | |  | e. | Maximizing the market value of the firm's stock |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Correct. The appropriate goal for management decisions; considers the risk and timing associated with expected cash flows to maximize the price of the firm's common stock. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Financial performance|Wealth maximization | | *DATE CREATED:* | 12/13/2017 1:22 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 37. The primary goal of a financial manager should be to \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | minimize operating costs | |  | b. | minimize interest payments | |  | c. | minimize tax payments | |  | d. | maximize operating income each year | |  | e. | maximize the value of the firm's stock |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Correct. The appropriate goal for management decisions considers the risk and timing associated with expected cash flows to maximize the price of the firm's common stock. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Organizational goal setting|Wealth maximization | | *DATE CREATED:* | 12/13/2017 1:26 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 38. Which of the following statements is correct?   |  |  |  | | --- | --- | --- | |  | a. | Given the multi-owner nature of most large corporations, the agency costs associated with perquisite consumption are not really a problem. | |  | b. | Managers may operate in the stockholders' best interests, but they may also operate in their own personal best interests. As long as managers stay within the law, there simply are not any effective controls that stockholders can implement to affect managerial decision making. | |  | c. | The potential for agency problems is greatest when individual stockholders own extremely small proportions of the companies and managers have little, if any, of their own wealth tied up in these companies. | |  | d. | An agency relationship exists when one or more persons hire another person to perform some service but withhold decision-making authority from that person. | |  | e. | Managers rule out any potential conflicts of interest with the shareholders by selling the firm's stock to outsiders. |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The stockholders want the managers to make decisions that are consistent with the goal of wealth maximization. However, managers' interests can potentially conflict with stockholders' interests. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. The stockholders want the managers to make decisions that are consistent with the goal of wealth maximization. However, managers' interests can potentially conflict with stockholders' interests. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Correct. The potential for agency problems is greatest in corporations with widely dispersed ownership because individual stockholders own extremely small proportions of the companies and managers have little, if any, of their own wealth tied up in these companies. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. The stockholders want the managers to make decisions that are consistent with the goal of wealth maximization. However, managers' interests can potentially conflict with stockholders' interests. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. The stockholders want the managers to make decisions that are consistent with the goal of wealth maximization. However, managers' interests can potentially conflict with stockholders' interests. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Agency problem | | *DATE CREATED:* | 12/13/2017 1:29 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 39. Which of the following actions is consistent with social responsibility and is not necessarily inconsistent with stockholder wealth maximization?   |  |  |  | | --- | --- | --- | |  | a. | Selling a smokestack "scrubber" required by the firm's air pollution policy that is also mandated by law. | |  | b. | Dumping effluent discharge into a river, where it ruins the drinking water of the community around the plant. The installation of machinery to treat the effluents is very expensive. | |  | c. | Investing in a smokestack filter to reduce sulphur-dioxide emissions to decrease the tax being levied on the firm by the state for pollution it produces each year. | |  | d. | Making a large corporate donation to the local community for funding a recreation complex that can be used by the firm's employees only. | |  | e. | Consider taking over the competitor's business in an attempt to establish monopoly for its product in the market. |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Most actions that help a firm increase the price of its stock also are beneficial to the society at large. This is why profit-motivated, free-enterprise economies have been so much more successful than socialistic and communistic economic systems. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. Most actions that help a firm increase the price of its stock also are beneficial to the society at large. This is why profit-motivated, free-enterprise economies have been so much more successful than socialistic and communistic economic systems. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Correct. It is good for the society if a firm attempts to maximize its stock price. Aside from such illegal actions as attempting to form monopolies, violating safety codes, and failing to meet pollution control requirements, the same actions that maximize stock prices also benefit society. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. Most actions that help a firm increase the price of its stock also are beneficial to the society at large. This is why profit-motivated, free-enterprise economies have been so much more successful than socialistic and communistic economic systems. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. Most actions that help a firm increase the price of its stock also are beneficial to the society at large. This is why profit-motivated, free-enterprise economies have been so much more successful than socialistic and communistic economic systems. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Stockholders | | *DATE CREATED:* | 12/13/2017 1:32 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 40. Which of the following statements is correct?   |  |  |  | | --- | --- | --- | |  | a. | The optimal dividend policy is the one that satisfies management, not shareholders. | |  | b. | The use of debt financing has no effect on earnings per share (EPS) or stock price. | |  | c. | The riskiness of projected EPS can impact the firm's value. | |  | d. | Stock price is dependent on the projected EPS and the use of debt, but not on the timing of the earnings stream. | |  | e. | Dividend policy is one aspect of the firm's financial policy that is determined solely by the shareholders. |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The financial manager makes decisions about the expected cash flows of a firm, which include capital structure decisions, capital budgeting decisions, and dividend policy decisions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. The financial manager makes decisions about the expected cash flows of a firm, which include capital structure decisions, capital budgeting decisions, and dividend policy decisions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Correct. Net income, and EPS, can be used as a barometer for measuring a firm's potential for generating future cash flows. Although current earnings and cash flows are generally highly correlated, a firm's value is determined by the cash flows it is expected to generate in the future, as well as the risk associated with those expected cash flows. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. The financial manager makes decisions about the expected cash flows of a firm, which include capital structure decisions, capital budgeting decisions, and dividend policy decisions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. The financial manager makes decisions about the expected cash flows of a firm, which include capital structure decisions, capital budgeting decisions, and dividend policy decisions. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Earnings per share|Wealth maximization|Organizational goal setting | | *DATE CREATED:* | 12/13/2017 1:38 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 41. Which of the following statements is correct?   |  |  |  | | --- | --- | --- | |  | a. | Other things held constant, it is generally safer to invest money in a proprietorship than in a corporation. | |  | b. | There really is no difference between a general partnership and a corporation, because both have multiple owners and both offer limited liability to the owners. | |  | c. | If you are planning to start a business, which you will run as the sole employee, and if you expect the business to earn $1,000,000 per year before taxes, you always can minimize the total taxes you pay by setting up the business as a corporation. | |  | d. | According to the text, "agency problems" tend to increase when managers own larger relative amounts of the company's stock. | |  | e. | Maximizing the income statement item "net income" might not be the best goal for a corporation if the managers are interested in maximizing the economic welfare of the firm's stockholders (that is, the firm's stock price). |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Financial managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. Financial managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. Financial managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. Financial managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Correct. Financial managers who attempt to maximize earnings might not maximize value. Financial managers should consider the risk and timing associated with expected cash flows to maximize the price of the firm's common stock. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Stockholders|Wealth maximization | | *DATE CREATED:* | 12/13/2017 1:41 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 42. Paying Payroll Service (PPS) recently declared bankruptcy. The price of PPS's stock has dropped from approximately $10 per share one year ago to $1 today. You can imagine that stockholders are not happy that the value of their stock has dropped so significantly. At the same time the financial position of the firm was deteriorating, PPS executives increased their salaries and perquisites substantially. Nothing they did violated any laws or was considered an unethical act. We would most likely describe this situation as \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | an agency problem | |  | b. | an accounting glitch | |  | c. | an appropriate use of the tax laws | |  | d. | an appropriate action, because executive compensation should always be increased substantially each year | |  | e. | acceptable, because it is obvious that the executives were trying to maximize the value of the firm, which is what the shareholders want them to do |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. A potential conflict between two parties—the principals (outside shareholders) and the agents (managers)—is an agency problem. The potential for agency problems is greatest in large corporations because individual stockholders own an extremely small proportion of the company and managers might be more concerned about pursuing their own agendas. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. Stockholders of large corporations “permit” (empower) the executives to make decisions about how the firms are run. The stockholders want the managers to make decisions that are consistent with the goal of wealth maximization. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. Stockholders of large corporations “permit” (empower) the executives to make decisions about how the firms are run. The stockholders want the managers to make decisions that are consistent with the goal of wealth maximization. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. Stockholders of large corporations “permit” (empower) the executives to make decisions about how the firms are run. The stockholders want the managers to make decisions that are consistent with the goal of wealth maximization. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. Stockholders of large corporations “permit” (empower) the executives to make decisions about how the firms are run. The stockholders want the managers to make decisions that are consistent with the goal of wealth maximization. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Reflective Thinking | | *KEYWORDS:* | Bloom’s Apply | | *OTHER:* | Agency problem | | *DATE CREATED:* | 12/13/2017 1:44 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 43. All else equal, in which of the following forms of business would the possibility of an agency problem be the greatest?   |  |  |  | | --- | --- | --- | |  | a. | A U.S. corporation in which individual stockholders own extremely small proportions of the company. | |  | b. | A proprietorship in which the owner is actively managing the business operations. | |  | c. | A partnership in which all the partners share management and decision-making responsibilities equally. | |  | d. | A foreign corporation with concentrated ownership; that is, it has relatively few owners. | |  | e. | A U.S. corporation that gives company shares as incentives to its managers. |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. Stockholders of large corporations "permit" (empower) the executives to make decisions about how the firms are run for the stockholders' goal of wealth maximization. An agency problem is a potential conflict of interest between outside shareholders (owners) and managers who make decisions about how to operate the firm. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. An agency relationship exists when one or more individuals, who are called the principals, hire another person, the agent, to perform a service and delegate decision-making authority to that agent. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. An agency relationship exists when one or more individuals, who are called the principals, hire another person, the agent, to perform a service and delegate decision-making authority to that agent. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. An agency relationship exists when one or more individuals, who are called the principals, hire another person, the agent, to perform a service and delegate decision-making authority to that agent. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. An agency relationship exists when one or more individuals, who are called the principals, hire another person, the agent, to perform a service and delegate decision-making authority to that agent. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Agency problem | | *DATE CREATED:* | 12/13/2017 1:47 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 44. Identify the internal factor that influences the stock price of a firm.   |  |  |  | | --- | --- | --- | |  | a. | Legal constraints | |  | b. | Capital structure | |  | c. | Tax laws | |  | d. | General level of economic activity | |  | e. | Conditions in the stock market |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The financial manager makes decisions about the expected cash flows of a firm. Although managerial actions affect the value of a firm's stock, external factors also influence stock prices. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Correct. The financial manager makes decisions about internal factors like capital structure, capital budgeting decisions, and dividend policy decisions. External factors like legal constraints, the general level of economic activity, tax laws, and conditions in the financial markets influence stock prices. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. The financial manager makes decisions about the expected cash flows of a firm. Although managerial actions affect the value of a firm's stock, external factors also influence stock prices. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. The financial manager makes decisions about the expected cash flows of a firm. Although managerial actions affect the value of a firm's stock, external factors also influence stock prices. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. The financial manager makes decisions about the expected cash flows of a firm. Although managerial actions affect the value of a firm's stock, external factors also influence stock prices. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Capital structure|Stock valuation | | *DATE CREATED:* | 12/13/2017 1:50 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 45. Which of the following statements is true of agency problems?   |  |  |  | | --- | --- | --- | |  | a. | Regardless of economic conditions, if a firm's stock price falls during the year, this indicates that the firm's managers must not be acting in the best interests of the shareholders. | |  | b. | One method of controlling agency problems is to engage in the taking of "poison pills." | |  | c. | One of the best means to control agency problems is to require the managers and other important decision-makers of the firm to also be owners of the firm. | |  | d. | Agency problems probably would not exist if the important decisions of a firm were made by persons who have no vested interests, such as ownership, in the firm. | |  | e. | Shareholders can solve agency problems by selling their stock to other investors. |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The potential conflict between two parties—the principals (outside shareholders) and the agents (managers)—is an agency problem. A common method used to motivate managers to operate in a manner consistent with stock price maximization is to tie managers' compensation to the company's performance. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. The potential conflict between two parties—the principals (outside shareholders) and the agents (managers)—is an agency problem. A common method used to motivate managers to operate in a manner consistent with stock price maximization is to tie managers' compensation to the company's performance. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Correct. One of the best means to control agency problems is to require the managers and other important decision-makers of the firm to also be owners of the firm. The potential for agency problems is greatest when individual stockholders own extremely small proportions of the companies and managers have little, if any, of their own wealth tied up in these companies. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. The potential conflict between two parties—the principals (outside shareholders) and the agents (managers)—is an agency problem. A common method used to motivate managers to operate in a manner consistent with stock price maximization is to tie managers' compensation to the company's performance. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. The potential conflict between two parties—the principals (outside shareholders) and the agents (managers)—is an agency problem. A common method used to motivate managers to operate in a manner consistent with stock price maximization is to tie managers' compensation to the company's performance. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Agency problem | | *DATE CREATED:* | 12/13/2017 1:53 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 46. The management's primary goal is stockholder wealth maximization, which, translates into \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | maximizing the value of the firm as measured by the price of its common stock | |  | b. | maximizing the earnings per share of the stockholders | |  | c. | maximizing the dividends received by stockholders | |  | d. | maximizing the net income earned by the company | |  | e. | maximizing the managerial compensation (incentives) |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. The management's primary goal is stockholder wealth maximization, which translates into maximizing the value of the firm as measured by the price of its common stock. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. Investors want to increase their wealth positions as much as possible. All else equal, it follows that managers should behave in a manner that is consistent with enhancing the firm's value. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. Investors want to increase their wealth positions as much as possible. All else equal, it follows that managers should behave in a manner that is consistent with enhancing the firm's value. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. Investors want to increase their wealth positions as much as possible. All else equal, it follows that managers should behave in a manner that is consistent with enhancing the firm's value. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. Investors want to increase their wealth positions as much as possible. All else equal, it follows that managers should behave in a manner that is consistent with enhancing the firm's value. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Stock valuation|Wealth maximization | | *DATE CREATED:* | 12/13/2017 1:56 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 47. Stock price maximization requires \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | sale of high-quality goods and services at the highest possible prices | |  | b. | efficient, low-cost plants that produce high-quality goods and services | |  | c. | the development of products that can be sold at a higher price to consumers | |  | d. | investment in high-cost plants to manufacture efficiently | |  | e. | investment in one business establishment to cut the operational cost of multiple establishments |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The management's primary goal is stockholder wealth maximization, which translates into maximizing the value of the firm as measured by the price of its common stock. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Correct. Stock price maximization is the most important goal of most corporations. Stock price maximization requires efficient, low-cost plants that produce high-quality goods and services. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. The management's primary goal is stockholder wealth maximization, which, translates into maximizing the value of the firm as measured by the price of its common stock. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. The management's primary goal is stockholder wealth maximization, which, translates into maximizing the value of the firm as measured by the price of its common stock. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. The management's primary goal is stockholder wealth maximization, which, translates into maximizing the value of the firm as measured by the price of its common stock. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Stock valuation|Wealth maximization | | *DATE CREATED:* | 12/13/2017 1:59 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 48. Actions that help a firm increase the price of its stock also \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | result in manufacturing of low-quality products | |  | b. | result in inflation | |  | c. | require the development of products that consumers want and need | |  | d. | require investment in high-cost manufacturing plants | |  | e. | result in sale of goods and services at highest possible prices |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Aside from such illegal actions as attempting to form monopolies, violating safety codes, and failing to meet pollution control requirements, the same actions that maximize stock prices also benefit society. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. Aside from such illegal actions as attempting to form monopolies, violating safety codes, and failing to meet pollution control requirements, the same actions that maximize stock prices also benefit society. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Correct. Actions that help a firm increase the price of its stock also require the development of products that consumers want and need. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. Aside from such illegal actions as attempting to form monopolies, violating safety codes, and failing to meet pollution control requirements, the same actions that maximize stock prices also benefit society. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. Aside from such illegal actions as attempting to form monopolies, violating safety codes, and failing to meet pollution control requirements, the same actions that maximize stock prices also benefit society. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Stock valuation|Wealth maximization | | *DATE CREATED:* | 12/13/2017 2:02 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 49. Identify the external factor that affects the value of a firm's stock.   |  |  |  | | --- | --- | --- | |  | a. | Capital structure decisions | |  | b. | General level of economic activity | |  | c. | Capital budgeting decisions | |  | d. | Dividend policy decisions | |  | e. | Cash flow of the firm |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Although managerial actions affect the value of a firm's stock, external factors also influence stock prices. Based on both internal and external constraints, management makes a set of long-run strategic policy decisions that chart a future course for the firm. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Correct. Although managerial actions affect the value of a firm's stock, external factors also influence stock prices. Included among these factors are legal constraints, the general level of economic activity, tax laws, and conditions in the financial markets. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. Although managerial actions affect the value of a firm's stock, external factors also influence stock prices. Based on both internal and external constraints, management makes a set of long-run strategic policy decisions that chart a future course for the firm. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. Although managerial actions affect the value of a firm's stock, external factors also influence stock prices. Based on both internal and external constraints, management makes a set of long-run strategic policy decisions that chart a future course for the firm. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. Although managerial actions affect the value of a firm's stock, external factors also influence stock prices. Based on both internal and external constraints, management makes a set of long-run strategic policy decisions that chart a future course for the firm. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Stock valuation | | *DATE CREATED:* | 12/13/2017 2:05 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 50. Which of the following mathematical expressions computes earnings per share (EPS)?   |  |  |  | | --- | --- | --- | |  | a. | Earnings per share = Net Income × Number of outstanding shares of common stock | |  | b. | Earnings per share = (Net Income + Dividend Paid) ÷ Number of outstanding shares of common stock | |  | c. | Earnings per share = Net Income ÷ Number of outstanding shares of common stock | |  | d. | Earnings per share = (Net Income – Dividend Paid) ÷ Number of outstanding shares of common stock | |  | e. | Earnings per share = (Net Income – Dividend Paid) × Number of outstanding shares of common stock |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. EPS is simply net income stated on a per share basis. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. EPS is simply net income stated on a per share basis. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Correct. Earnings per share (EPS) equals net income (NI) divided by the number of outstanding shares of common stock. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. EPS is simply net income stated on a per share basis. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. EPS is simply net income stated on a per share basis. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Remember | | *OTHER:* | Net income|Earnings per share | | *DATE CREATED:* | 12/13/2017 2:07 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 51. Which of the following statements is true of earnings per share?   |  |  |  | | --- | --- | --- | |  | a. | A company must pay tax on the earnings per share. | |  | b. | Earnings per share can be maximized by changing from corporation to proprietorship form of organization. | |  | c. | A company can maximize its value by maximizing earnings per share. | |  | d. | Earnings per share is often used as an indication of the firm's potential for generating future cash flows. | |  | e. | A high earnings per share in the current period results in lower future risk position of the business. |  |  |  | | --- | --- | | *ANSWER:* | d | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Earnings per share (EPS), equals net income (NI) divided by the number of outstanding shares of common stock. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. Earnings per share (EPS), equals net income (NI) divided by the number of outstanding shares of common stock. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. Earnings per share (EPS), equals net income (NI) divided by the number of outstanding shares of common stock. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Correct. Many investors use earnings per share (EPS) to gauge the value of a stock. A primary reason EPS receives so much attention is the belief that net income, and thus EPS, can be used as a barometer for measuring the firm's potential for generating future cash flows. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. Earnings per share (EPS), equals net income (NI) divided by the number of outstanding shares of common stock. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Earnings per share | | *DATE CREATED:* | 12/13/2017 2:11 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 52. Which of the following statements is true of a hostile takeover?   |  |  |  | | --- | --- | --- | |  | a. | A hostile takeover results when management wants the firm to be taken over. | |  | b. | A hostile takeover is most likely to occur when a firm's stock is undervalued relative to its potential. | |  | c. | After a hostile takeover, managers of the acquired firm generally retain the positions they had prior to the takeover. | |  | d. | A hostile takeover does not allow managers to take actions that maximize stock prices. | |  | e. | A hostile takeover results in poor management and inefficient operations after the takeover is completed. |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Hostile takeovers are a threat that can motivate managers to act in the shareholders' best interests. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Correct. Hostile takeovers are most likely to occur when a firm's stock is undervalued relative to its potential, which is often caused by inefficient operations that result from poor management. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. Hostile takeovers are a threat that can motivate managers to act in the shareholders' best interests. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. Hostile takeovers are a threat that can motivate managers to act in the shareholders' best interests. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. Hostile takeovers are a threat that can motivate managers to act in the shareholders' best interests. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Takeover | | *DATE CREATED:* | 12/13/2017 2:14 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 53. Which of the following actions should be taken by managers to avoid takeover threats?   |  |  |  | | --- | --- | --- | |  | a. | Managers should take action to maximize stock prices. | |  | b. | Managers should declare lower dividends. | |  | c. | Managers should let the stockholders make the capital structure decisions. | |  | d. | Managers should make decisions that decrease the firm's expected future cash flows. | |  | e. | Managers should ensure that high-quality goods and services are sold at the highest possible prices. |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. To avoid takeover threats, managers take actions that maximize stock prices. See 1-3: What Goal(s) Should Businesses Pursue? | |  | b. | Incorrect. Hostile takeovers are most likely to occur when a firm's stock is undervalued relative to its potential, which is often caused by inefficient operations that result from poor management. See 1-3: What Goal(s) Should Businesses Pursue? | |  | c. | Incorrect. Hostile takeovers are most likely to occur when a firm's stock is undervalued relative to its potential, which often is caused by inefficient operations that result from poor management. See 1-3: What Goal(s) Should Businesses Pursue? | |  | d. | Incorrect. Hostile takeovers are most likely to occur when a firm's stock is undervalued relative to its potential, which is often caused by inefficient operations that result from poor management. See 1-3: What Goal(s) Should Businesses Pursue? | |  | e. | Incorrect. Hostile takeovers are most likely to occur when a firm's stock is undervalued relative to its potential, which is often caused by inefficient operations that result from poor management. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Takeover | | *DATE CREATED:* | 12/13/2017 2:17 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 54. Identify the correct statement about business ethics.   |  |  |  | | --- | --- | --- | |  | a. | Good business ethics decrease shareholders' trust in the company. | |  | b. | Good business ethics result in recurring fines and legal expenses. | |  | c. | Good business ethics attract business from customers who appreciate and support specific political parties. | |  | d. | Good business ethics reduce the economic viability of the communities where these firms operate. | |  | e. | Good business ethics attract and keep employees of the highest caliber. |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Business ethics are a company's attitude and conduct toward its employees, customers, community, and stockholders. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | b. | Incorrect. Business ethics is a company's attitude and conduct toward its employees, customers, community, and stockholders. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | c. | Incorrect. Business ethics are a company's attitude and conduct toward its employees, customers, community, and stockholders. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | d. | Incorrect. Business ethics is a company's attitude and conduct toward its employees, customers, community, and stockholders. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | e. | Correct. Executives believe that there is a positive correlation between ethics and long-run profitability because ethical behavior attracts and keeps employees of the highest caliber. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Roles do Ethics and Governance Play in Business Success? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.04 - Explain the roles ethics and good governance play in successful businesses. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Business ethics|Corporate governance | | *DATE CREATED:* | 12/13/2017 2:19 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 55. Which of the following statements concerning a firm's quest to maximize wealth is correct?   |  |  |  | | --- | --- | --- | |  | a. | In extremely competitive industries, we would expect firms would voluntarily engage in many socially beneficial projects to try to maximize their stocks' values. | |  | b. | Actions that maximize a firm's stock price are inconsistent with maximizing social welfare. | |  | c. | The concepts of social responsibility and ethical responsibility on the part of corporations are completely different and neither is relevant in maximizing stock price. | |  | d. | In a competitive market, if a group of firms does not spend resources making social welfare improvements, but another group does, in general, this will not affect the second group's ability to attract funds. | |  | e. | If the government did not mandate socially responsible corporate actions, such as those relating to product safety and fair hiring practices, most firms in competitive markets probably would not pursue such policies voluntarily. |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. Good ethical behavior and social responsibility is important in wealth maximization. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | b. | Incorrect. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. Good ethical behavior and social responsibility is important in wealth maximization. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | c. | Incorrect. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. Good ethical behavior and social responsibility is important in wealth maximization. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | d. | Incorrect. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. Good ethical behavior and social responsibility is important in wealth maximization. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | e. | Correct. Although most firms have policies that espouse ethical business conduct, in many instances, large corporations have engaged in unethical behavior. The unethical behavior of executives provided substantial gains at the expense of stockholders' positions and resulted in legislation aimed at arresting the apparent tide of unethical behavior in the corporate world. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Roles do Ethics and Governance Play in Business Success? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.04 - Explain the roles ethics and good governance play in successful businesses. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Business ethics|Corporate governance | | *DATE CREATED:* | 12/13/2017 2:23 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 56. The 11 "titles" in the Sarbanes-Oxley Act of 2002 establish standards for accountability and responsibility in reporting financial information for publicly-traded corporations. Which of the following activities does the act provide that a corporation must abide by?   |  |  |  | | --- | --- | --- | |  | a. | The corporation must have a committee that consists of an internal director nominated from the board to oversee the firm's audits. | |  | b. | The corporation's internal auditor will render a biased opinion concerning the firm's financial statements. | |  | c. | The corporation must maximize social welfare through funding of environmentally friendly activities. | |  | d. | The corporation must provide additional information about the procedures used to construct and report financial statements. | |  | e. | Either the firm's chief executive officer (CEO) or its chief financial officer (CFO), but not both, must certify audit reports submitted to the Securities Exchange Commission. |  |  |  | | --- | --- | | *ANSWER:* | d | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The 11 sections (titles) in the Sarbanes-Oxley Act of 2002 establish standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | b. | Incorrect. The 11 sections (titles) in the Sarbanes-Oxley Act of 2002 establish standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | c. | Incorrect. The 11 sections (titles) in the Sarbanes-Oxley Act of 2002 establish standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | d. | Correct. The 11 sections (titles) in the Sarbanes-Oxley Act of 2002 require a publicly-traded corporation to provide additional information about the procedures used to construct and report financial statements. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | e. | Incorrect. The 11 sections (titles) in the Sarbanes-Oxley Act of 2002 establish standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Roles do Ethics and Governance Play in Business Success? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.04 - Explain the roles ethics and good governance play in successful businesses. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Sarbanes-Oxley Act of 2002 | | *DATE CREATED:* | 12/13/2017 2:26 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 57. Which of the following is an example of ethical behavior of the management of a corporation?   |  |  |  | | --- | --- | --- | |  | a. | Executives of the corporation pursue their own personal interests when making important business decisions. | |  | b. | Payment of bribe by the management of the corporation to foreign governments to obtain business. | |  | c. | The management of the corporation uses confidential information for personal gain. | |  | d. | The management actions are often resulting in large gains for themselves and large losses for stockholders. | |  | e. | The management takes steps to adhere to laws and regulations relating to product safety. |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Business ethics is a company's attitude and conduct toward its employees, customers, community, and stockholders. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | b. | Incorrect. Business ethics is a company's attitude and conduct toward its employees, customers, community, and stockholders. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | c. | Incorrect. Business ethics is a company's attitude and conduct toward its employees, customers, community, and stockholders. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | d. | Incorrect. Business ethics is a company's attitude and conduct toward its employees, customers, community, and stockholders. High standards of ethical behavior demand that a firm treat each party it deals with in a fair and honest manner. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | e. | Correct. A firm's commitment to business ethics can be measured by the tendency of the firm and its employees to adhere to laws and regulations relating to such factors as product safety and quality, fair employment practices, fair marketing and selling practices. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Roles do Ethics and Governance Play in Business Success? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.04 - Explain the roles ethics and good governance play in successful businesses. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Business ethics|Corporate governance | | *DATE CREATED:* | 12/13/2017 2:29 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 58. The 11 sections (titles) in the Sarbanes-Oxley Act of 2002 \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | require corporations to payout all the earnings as dividends | |  | b. | establish standards for accountability and responsibility in reporting financial information | |  | c. | allow management to take actions resulting in large gains to them and losses to stockholders | |  | d. | allow management to use confidential information for personal gains | |  | e. | require stockholders to make capital structure decisions |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. A major reason for the Sarbanes-Oxley Act of 2002 was that accounting scandals caused the public to be skeptical of accounting and financial information reported by large U.S. corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | b. | Correct. The 11 sections (titles) in the Sarbanes-Oxley Act of 2002 establish standards for accountability and responsibility in reporting financial information. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | c. | Incorrect. A major reason for the Sarbanes-Oxley Act of 2002 was that accounting scandals caused the public to be skeptical of accounting and financial information reported by large U.S. corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | d. | Incorrect. A major reason for the Sarbanes-Oxley Act of 2002 was that accounting scandals caused the public to be skeptical of accounting and financial information reported by large U.S. corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | e. | Incorrect. A major reason for the Sarbanes-Oxley Act of 2002 was that accounting scandals caused the public to be skeptical of accounting and financial information reported by large U.S. corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Roles do Ethics and Governance Play in Business Success? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.04 - Explain the roles ethics and good governance play in successful businesses. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Sarbanes-Oxley Act of 2002 | | *DATE CREATED:* | 12/13/2017 2:32 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 59. The Sarbanes-Oxley Act of 2002 requires a publicly-traded corporation to \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | keep confidential the procedures used to construct and report financial statements | |  | b. | have an internal audit team that renders an unbiased opinion concerning the firm's governance policy | |  | c. | have a committee that consists of outside directors to oversee the firm's audits | |  | d. | increase the certainty of the expected cash flows | |  | e. | adopt the primary goal of stockholder wealth maximization |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The Sarbanes-Oxley Act of 2002 establishes standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | b. | Incorrect. The Sarbanes-Oxley Act of 2002 establishes standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | c. | Correct. The Sarbanes-Oxley Act of 2002 requires a publicly-traded corporation to have a committee that consists of outside directors to oversee the firm's audits. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | d. | Incorrect. The Sarbanes-Oxley Act of 2002 establishes standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | e. | Incorrect. The Sarbanes-Oxley Act of 2002 establishes standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Roles do Ethics and Governance Play in Business Success? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.04 - Explain the roles ethics and good governance play in successful businesses. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Sarbanes-Oxley Act of 2002 | | *DATE CREATED:* | 12/13/2017 2:35 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 60. The Sarbanes-Oxley Act of 2002 requires the chief executive officer of a publicly-traded corporation to \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | keep confidential the procedures used to construct and report financial statements | |  | b. | certify financial reports that are submitted to the Securities and Exchange Commission | |  | c. | pursue interests that result in large gains for them and large losses for stockholders | |  | d. | oversee the corporation's audit and attest the audit report | |  | e. | construct the firm's financial statements |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The Sarbanes-Oxley Act of 2002 establishes standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | b. | Correct. The Sarbanes-Oxley Act of 2002 requires the chief executive officer of a publicly-traded corporation to certify financial reports that are submitted to the Securities and Exchange Commission. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | c. | Incorrect. The Sarbanes-Oxley Act of 2002 establishes standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | d. | Incorrect. The Sarbanes-Oxley Act of 2002 establishes standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | e. | Incorrect. The Sarbanes-Oxley Act of 2002 establishes standards for accountability and responsibility in reporting financial information for publicly-traded corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Roles do Ethics and Governance Play in Business Success? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.04 - Explain the roles ethics and good governance play in successful businesses. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Sarbanes-Oxley Act of 2002 | | *DATE CREATED:* | 12/13/2017 3:03 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 61. Which of the following is true of the Sarbanes-Oxley Act of 2002?   |  |  |  | | --- | --- | --- | |  | a. | The act requires at least 30 percent of the businesses in the United States to be formed as S corporations. | |  | b. | The act requires a limited liability company to have a committee that consists of inside directors to oversee the firm's audits. | |  | c. | The act requires a limited liability company to be taxed like a proprietorship. | |  | d. | The act requires an S corporation to have more than 100 stockholders (members) and more than one type of stock. | |  | e. | The act requires a publicly-traded corporation to hire an external auditing firm that renders an unbiased opinion concerning the firm's financial statements. |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. A major reason for the Sarbanes-Oxley Act of 2002 was that accounting scandals caused the public to be skeptical of accounting and financial information reported by large U.S. corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | b. | Incorrect. A major reason for the Sarbanes-Oxley Act of 2002 was that accounting scandals caused the public to be skeptical of accounting and financial information reported by large U.S. corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | c. | Incorrect. A major reason for the Sarbanes-Oxley Act of 2002 was that accounting scandals caused the public to be skeptical of accounting and financial information reported by large U.S. corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | d. | Incorrect. A major reason for the Sarbanes-Oxley Act of 2002 was that accounting scandals caused the public to be skeptical of accounting and financial information reported by large U.S. corporations. See 1-4: What Roles do Ethics and Governance Play in Business Success? | |  | e. | Correct. The Sarbanes-Oxley Act of 2002 requires a publicly-traded corporation to hire an external auditing firm that will render an unbiased (independent) opinion concerning the firm's financial statements. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Roles do Ethics and Governance Play in Business Success? | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.04 - Explain the roles ethics and good governance play in successful businesses. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Sarbanes-Oxley Act of 2002 | | *DATE CREATED:* | 12/13/2017 3:06 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 62. Which of the following is a reason for a company to go international?   |  |  |  | | --- | --- | --- | |  | a. | The company manufactures products that have saturated foreign markets. | |  | b. | The company holds a patent for the best production technology for its products. | |  | c. | The company is manufacturing the finished product in their country at a very high production cost. | |  | d. | The company has the best access to the basic resources in their country needed to sustain their primary business. | |  | e. | The company wants to avoid a hostile takeover. |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Large multinational companies are involved in all phases of the production process, from extraction of raw materials, through the manufacturing process, to distribution to consumers throughout the world, managers of such firms face a wide range of issues that are not present when a company operates in a single country. See 1-5: Forms of Businesses in Other Countries | |  | b. | Incorrect. Large multinational companies are involved in all phases of the production process, from extraction of raw materials, through the manufacturing process, to distribution to consumers throughout the world, managers of such firms face a wide range of issues that are not present when a company operates in a single country. See 1-5: Forms of Businesses in Other Countries | |  | c. | Correct. Companies in countries where production costs are high, tend to shift production to low-cost countries. The ability to shift production from country to country has important implications for labor costs in all countries. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. Large multinational companies are involved in all phases of the production process, from extraction of raw materials, through the manufacturing process, to distribution to consumers throughout the world, managers of such firms face a wide range of issues that are not present when a company operates in a single country. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. Large multinational companies are involved in all phases of the production process, from extraction of raw materials, through the manufacturing process, to distribution to consumers throughout the world, managers of such firms face a wide range of issues that are not present when a company operates in a single country. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Finance|Multinational corporations | | *DATE CREATED:* | 12/13/2017 3:09 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 63. Which of the following statements is correct?   |  |  |  | | --- | --- | --- | |  | a. | Financial institutions in other countries generally are less regulated than in the United States. | |  | b. | One reason domestic firms "go global" is to sell products in saturated markets. | |  | c. | Often firms can avoid labor laws that apply to foreign manufacturers by establishing manufacturing units in the country where the hurdles apply. | |  | d. | One of the advantages associated with doing business in international markets is that all countries report their financial statements in the U.S. dollar. | |  | e. | A multinational firm takes advantage of the cultural differences among countries and uses the same marketing strategy in every country in which it operates. |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. Financial institutions in other countries are generally less regulated than in the United States, which means foreign banks can provide businesses with a greater variety of services than U.S. banks can, including short-term loans, long-term financing, and even stock ownership. See 1-5: Forms of Businesses in Other Countries | |  | b. | Incorrect. While most developed countries with free economies have business organizations that are similar to U.S. corporations, some differences exist relating to ownership structure and management of operations. See 1-5: Forms of Businesses in Other Countries | |  | c. | Incorrect. While most developed countries with free economies have business organizations that are similar to U.S. corporations, some differences exist relating to ownership structure and management of operations. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. While most developed countries with free economies have business organizations that are similar to U.S. corporations, some differences exist relating to ownership structure and management of operations. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. While most developed countries with free economies have business organizations that are similar to U.S. corporations, some differences exist relating to ownership structure and management of operations. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Global business finance|Finance | | *DATE CREATED:* | 12/13/2017 3:13 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 64. Because financial institutions in other countries are generally less regulated than those in the United States, they generally \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | invest in less socially responsible companies than U.S. banks | |  | b. | can provide businesses a greater variety of services than U.S. banks can | |  | c. | invest to minimize investment corporations' losses | |  | d. | can provide investment opportunities in illegal business plans also | |  | e. | are required to fulfill the regulations of the Sarbanes-Oxley Act |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Financial institutions in other countries can provide businesses with services such as short-term loans, long-term financing, and even stock ownership. Non-U.S. firms tend to have close relationships with individual banking organizations that also might take ownership positions in the companies. See 1-5: Forms of Businesses in Other Countries | |  | b. | Correct. As financial institutions in other countries are generally less regulated than in the United States, foreign banks provide businesses a greater variety of services than U.S. banks do. See 1-5: Forms of Businesses in Other Countries | |  | c. | Incorrect. Financial institutions in other countries can provide businesses with services such as short-term loans, long-term financing, and even stock ownership. Non-U.S. firms tend to have close relationships with individual banking organizations that also might take ownership positions in the companies. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. Financial institutions in other countries can provide businesses with services such as short-term loans, long-term financing, and even stock ownership. Non-U.S. firms tend to have close relationships with individual banking organizations that also might take ownership positions in the companies. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. Financial institutions in other countries can provide businesses with services such as short-term loans, long-term financing, and even stock ownership. Non-U.S. firms tend to have close relationships with individual banking organizations that also might take ownership positions in the companies. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Finance|Global business finance | | *DATE CREATED:* | 12/13/2017 3:16 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 65. Which of the following is true of corporations that operate in several different countries?   |  |  |  | | --- | --- | --- | |  | a. | A nation may expropriate the assets of multinational corporations without compensation. | |  | b. | Differences in legal systems of host nations make it easy for executives trained in one country to operate effectively in another. | |  | c. | Cash flows in various parts of a multinational corporate system are denominated in one currency. | |  | d. | Multinational corporations have the advantage of uniform attitudes toward risk taking from one country to the next. | |  | e. | Uniformity of tax-laws across different nations result in proper coordination and control of subsidiaries. |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. A nation is free to place constraints on the transfer of corporate resources and even to expropriate—that is, take for public use—the assets of a firm without compensation. See 1-5: Forms of Businesses in Other Countries | |  | b. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | c. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Political risk|Global business environment| | | *DATE CREATED:* | 12/13/2017 3:19 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 66. Which of the following is true of stockholders in continental Europe?   |  |  |  | | --- | --- | --- | |  | a. | The stocks of corporations are widely dispersed among a large number of different investors, both individuals and institutions. | |  | b. | Many stockholders assign banks their proxy votes for the directors of the companies. | |  | c. | Banks are major stockholders of corporations in continental Europe. | |  | d. | Major stockholders of closed corporations are not involved in the firms' daily operations. | |  | e. | Stockholders in continental Europe are often family units resulting from the universal banking relationship existing in the United States. |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The stocks of corporations in the United States are widely dispersed among a large number of different investors, both individuals and institutions. On the other hand, in much of continental Europe, major investor groups include families, banks, and other corporations. See 1-5: Forms of Businesses in Other Countries | |  | b. | Correct. Although banks in continental Europe do not hold large numbers of shares of stocks, they can greatly influence companies because many shareholders assign banks their proxy votes for the directors of the companies. See 1-5: Forms of Businesses in Other Countries | |  | c. | Incorrect. The stocks of corporations in the United States are widely dispersed among a large number of different investors, both individuals and institutions. On the other hand, in much of continental Europe, major investor groups include families, banks, and other corporations. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. The stocks of corporations in the United States are widely dispersed among a large number of different investors, both individuals and institutions. On the other hand, in much of continental Europe, major investor groups include families, banks, and other corporations. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. The stocks of corporations in the United States are widely dispersed among a large number of different investors, both individuals and institutions. On the other hand, in much of continental Europe, major investor groups include families, banks, and other corporations. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Proxy|Global business finance|Organizational structure types | | *DATE CREATED:* | 12/13/2017 3:22 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 67. Which of the following statements is true of the concentrated organizational structures of non-U.S. firms?   |  |  |  | | --- | --- | --- | |  | a. | The concentrated organizational structures of non-U.S. firms permit managers to focus more on short-term earnings. | |  | b. | The concentrated organizational structures of non-U.S. firms result in restricted access to credit in times of financial difficulty. | |  | c. | The concentrated organizational structures of non-U.S. firms make it difficult to change managers. | |  | d. | The concentrated organizational structures of non-U.S. firms reduce the managerial focus on wealth maximization. | |  | e. | The concentrated organizational structures of non-U.S. firms result from the universal banking relationships that exist outside the United States. |  |  |  | | --- | --- | | *ANSWER:* | e | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The ownership structures of many large non-U.S. companies are often concentrated in the hands of a relatively few investors or investment groups. Such firms are considered closed because shares of stock often are not publicly traded, relatively few individuals or groups own the stock, and major stockholders are generally involved in the firms' daily operations. See 1-5: Forms of Businesses in Other Countries | |  | b. | Incorrect. The ownership structures of many large non-U.S. companies are often concentrated in the hands of a relatively few investors or investment groups. Such firms are considered closed because shares of stock often are not publicly traded, relatively few individuals or groups own the stock, and major stockholders are generally involved in the firms' daily operations. See 1-5: Forms of Businesses in Other Countries | |  | c. | Incorrect. The ownership structures of many large non-U.S. companies are often concentrated in the hands of a relatively few investors or investment groups. Such firms are considered closed because shares of stock often are not publicly traded, relatively few individuals or groups own the stock, and major stockholders are generally involved in the firms' daily operations. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. The ownership structures of many large non-U.S. companies are often concentrated in the hands of a relatively few investors or investment groups. Such firms are considered closed because shares of stock often are not publicly traded, relatively few individuals or groups own the stock, and major stockholders are generally involved in the firms' daily operations. See 1-5: Forms of Businesses in Other Countries | |  | e. | Correct. The primary reason non-U.S. firms are likely to be more closed, and thus have more concentrated ownership than U.S. firms, results from the universal banking relationships that exist outside the United States. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Global business finance|Organizational structure types | | *DATE CREATED:* | 12/13/2017 3:25 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 68. Which of the following is true of the greater concentration of ownership in non-U.S. firms than in U.S. firms?   |  |  |  | | --- | --- | --- | |  | a. | It makes it easy to change managers in non-U.S. firms. | |  | b. | It permits greater monitoring and control by individuals or groups than the more dispersed ownership structures of U.S. firms. | |  | c. | It makes it difficult for non-U.S. firms to access credit in times of financial difficulty. | |  | d. | It results in managers focusing on short-term goals rather than on long-term objectives. | |  | e. | It reduces the involvement of stockholders in the daily operations of non-U.S. firms. |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The primary reason non-U.S. firms are likely to be more closed, and thus have more concentrated ownership than U.S. firms, results from the universal banking relationships that exist outside the United States. See 1-5: Forms of Businesses in Other Countries | |  | b. | Correct. The greater concentration of ownership of non-U.S. firms permits managers to focus more on long-term objectives, especially wealth maximization, than on short-term earnings, because these firms have easier access to credit in times of financial difficulty. See 1-5: Forms of Businesses in Other Countries | |  | c. | Incorrect. The primary reason non-U.S. firms are likely to be more closed, and thus have more concentrated ownership than U.S. firms, results from the universal banking relationships that exist outside the United States. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. The primary reason non-U.S. firms are likely to be more closed, and thus have more concentrated ownership than U.S. firms, results from the universal banking relationships that exist outside the United States. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. The primary reason non-U.S. firms are likely to be more closed, and thus have more concentrated ownership than U.S. firms, results from the universal banking relationships that exist outside the United States. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Organizational structure types|Finance | | *DATE CREATED:* | 12/13/2017 3:29 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 69. Industrial groups that exist in foreign countries are \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | owned and managed by the Securities and Exchange Commission | |  | b. | organizations that tie together all the functions of production and sales from start to finish | |  | c. | organizations that encompass firms involved in financing and marketing only | |  | d. | privately held companies and the stock of such firms are not traded publicly | |  | e. | led by the firm involved with manufacturing and distribution of products |  |  |  | | --- | --- | | *ANSWER:* | b | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. In some parts of the world, firms belong to industrial groups, which are organizations composed of companies in different industries that have common ownership interests and, in some instances, shared management. See 1-5: Forms of Businesses in Other Countries | |  | b. | Correct. Industrial groups are organizations that tie together all the functions of production and sales from start to finish by including firms that provide the materials and services required to manufacture and sell the groups' products. See 1-5: Forms of Businesses in Other Countries | |  | c. | Incorrect. In some parts of the world, firms belong to industrial groups, which are organizations composed of companies in different industries that have common ownership interests and, in some instances, shared management. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. In some parts of the world, firms belong to industrial groups, which are organizations composed of companies in different industries that have common ownership interests and, in some instances, shared management. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. In some parts of the world, firms belong to industrial groups, which are organizations composed of companies in different industries that have common ownership interests and, in some instances, shared management. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Organizational structure types | | *DATE CREATED:* | 12/13/2017 3:32 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 70. Which of the following statements is true?   |  |  |  | | --- | --- | --- | |  | a. | The currency values among different countries rarely fluctuate. | |  | b. | Cash flows of various parts of a multinational corporate system are always denominated in the same currencies. | |  | c. | Institutional differences among countries can cause significant problems in coordination of subsidiaries. | |  | d. | No nation places constraints on the transfer of corporate resources. | |  | e. | Within similar geographic regions, different countries have uniform cultural heritages that shape values and influence the role of business in the society. |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | b. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | c. | Correct. Each country in which the firm operates has its own political and economic institutions, and institutional differences among countries can cause significant problems when a firm tries to coordinate and control the worldwide operations of its subsidiaries. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Exchange rates|International sociocultural differences | | *DATE CREATED:* | 12/13/2017 3:35 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 71. Which of the following statements concerning the complexity of the manager's task in a multinational corporation is correct?   |  |  |  | | --- | --- | --- | |  | a. | The currency values of different countries in which a multinational corporation operates often experience fluctuations. | |  | b. | Cash flows in the various parts of a multinational corporate system are often denominated in the same currencies. | |  | c. | All the countries in which a multinational corporation operates have uniform political and economic institutions. | |  | d. | The management personnel of the subsidiaries of a multinational corporation are fluent in English and several other languages. | |  | e. | No nation can place constraints on the transfer of corporate resources. |  |  |  | | --- | --- | | *ANSWER:* | a | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Correct. Cash flows in various parts of a multinational corporate system often are denominated in different currencies. An analysis of exchange rates and the effects of fluctuating currency values must be included in all multinational financial analyses. See 1-5: Forms of Businesses in Other Countries | |  | b. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | c. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Exchange rates|International sociocultural differences|Political risk | | *DATE CREATED:* | 12/13/2017 3:41 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 72. The prices at which the currency of one country can be converted into the currencies of other countries are known as \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | procurement prices | |  | b. | political risk costs | |  | c. | exchange rates | |  | d. | conversion costs | |  | e. | transfer prices |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Cash flows in various parts of a multinational corporate system are often denominated in different currencies. Hence, an analysis of the effects of fluctuating currency values must be included in all multinational financial analyses. See 1-5: Forms of Businesses in Other Countries | |  | b. | Incorrect. Cash flows in various parts of a multinational corporate system are often denominated in different currencies. Hence, an analysis of the effects of fluctuating currency values must be included in all multinational financial analyses. See 1-5: Forms of Businesses in Other Countries | |  | c. | Correct. The prices at which the currency of one country can be converted into the currencies of other countries are known as exchange rates. An analysis of exchange rates and the effects of fluctuating currency values must be included in all multinational financial analyses. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. Cash flows in various parts of a multinational corporate system are often denominated in different currencies. Hence, an analysis of the effects of fluctuating currency values must be included in all multinational financial analyses. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. Cash flows in various parts of a multinational corporate system are often denominated in different currencies. Hence, an analysis of the effects of fluctuating currency values must be included in all multinational financial analyses. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Remember | | *OTHER:* | Exchange rates | | *DATE CREATED:* | 12/13/2017 3:44 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 73. Which of the following is true of a firm that tries to coordinate and control the worldwide operations of its subsidiaries?   |  |  |  | | --- | --- | --- | |  | a. | The management personnel of its subsidiaries need to be fluent only in English. | |  | b. | The subsidiaries based in different countries never face any constraints on the transfer of corporate resources. | |  | c. | Cash flows in different subsidiaries are denominated in different currencies. | |  | d. | The terms of trade determined after negotiation with the host government and the multinational corporation are always well aligned to the firm's policies. | |  | e. | All the subsidiaries are based only in countries that have homogeneous cultural heritages. |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | b. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | c. | Correct. Cash flows in various parts of a multinational corporate system are often denominated in different currencies. The fluctuations in these currencies increase the complexity of the manager's task in a multinational corporation. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. Several problems associated with the international environment increase the complexity of the manager's task in a multinational corporation, and they often force the manager to change the way alternative courses of action are evaluated and compared. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | International legal differences|International sociocultural differences | | *DATE CREATED:* | 12/13/2017 3:47 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 74. In many countries, the terms under which companies compete, the actions that must be taken or avoided, and the terms of trade of various transactions are determined by \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | the governments of the countries in which the subsidiaries operate | |  | b. | the fluctuations in the exchange rates of the currencies of the countries in which the subsidiaries operate | |  | c. | direct negotiation between the host government and the multinational corporation | |  | d. | the ability to curtail unprofitable operations | |  | e. | the host government only |  |  |  | | --- | --- | | *ANSWER:* | c | | *FEEDBACK:* | |  |  |  | | --- | --- | --- | |  | a. | Incorrect. The determination of terms under which companies compete, the actions that must be taken or avoided, and the terms of trade on various transactions is a political process. Most traditional models in finance assume the existence of a competitive marketplace in which the terms of trade are determined by the participants. See 1-5: Forms of Businesses in Other Countries | |  | b. | Incorrect. The determination of terms under which companies compete, the actions that must be taken or avoided, and the terms of trade on various transactions is a political process. Most traditional models in finance assume the existence of a competitive marketplace in which the terms of trade are determined by the participants. See 1-5: Forms of Businesses in Other Countries | |  | c. | Correct. In most of the world, the terms under which companies compete, the actions that must be taken or avoided, and the terms of trade on various transactions are determined by direct negotiation between the host government and the multinational corporation rather than in the marketplace. See 1-5: Forms of Businesses in Other Countries | |  | d. | Incorrect. The determination of terms under which companies compete, the actions that must be taken or avoided, and the terms of trade on various transactions is a political process. Most traditional models in finance assume the existence of a competitive marketplace in which the terms of trade are determined by the participants. See 1-5: Forms of Businesses in Other Countries | |  | e. | Incorrect. The determination of terms under which companies compete, the actions that must be taken or avoided, and the terms of trade on various transactions is a political process. Most traditional models in finance assume the existence of a competitive marketplace in which the terms of trade are determined by the participants. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | Multiple Choice | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | International legal differences | | *DATE CREATED:* | 12/13/2017 3:51 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 75. The finance function is relatively independent of most other corporate functions. Marketing decisions, for example, might affect the firm's need for funds but are not affected by conditions in financial markets or other financing issues.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Coordination of the finance function and the marketing function is critical to the success of a company, especially a small, newly formed firm because it is necessary to ensure that sufficient cash is generated to survive. See 1-1: What is Finance? | | *Incorrect* | Coordination of the finance function and the marketing function is critical to the success of a company, especially a small, newly formed firm because it is necessary to ensure that sufficient cash is generated to survive. See 1-1: What is Finance? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What is Finance? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.01 - Explain what finance entails and why everyone should have an understanding of basic financial concepts. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Finance|Financial markets | | *DATE CREATED:* | 12/13/2017 3:55 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 76. Two key limitations of the proprietorship form of business involve potential difficulty in raising the necessary capital and the presence of unlimited personal liability for business debts.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | It is difficult for a proprietorship to obtain large sums of capital because the firm's financial strength is generally based solely on the financial strength of the only owner. The proprietor has unlimited personal liability for business debts because any debts of the business are considered obligations of the sole owner. See 1-2: Alternative Forms of Business Organization | | *Incorrect* | It is difficult for a proprietorship to obtain large sums of capital because the firm's financial strength is generally based solely on the financial strength of the only owner. The proprietor has unlimited personal liability for business debts because any debts of the business are considered obligations of the sole owner. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Business ownership forms|Sole proprietorships | | *DATE CREATED:* | 12/13/2017 3:59 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 77. The disadvantages associated with a proprietorship are similar to those of a partnership. A major difference between these two forms of business organization is that a partnership requires a legal agreement that commits the partners' personal assets, which means that partnerships have little difficulty raising large amounts of capital (similar to corporations).   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Even though partnerships have greater capabilities than proprietorships to raise funds to support growth, partnerships still have difficulty in attracting substantial amounts of funds. See 1-2: Alternative Forms of Business Organization | | *Incorrect* | Even though partnerships have greater capabilities than proprietorships to raise funds to support growth, partnerships still have difficulty in attracting substantial amounts of funds. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Business ownership forms|Sole proprietorships|Partnerships | | *DATE CREATED:* | 12/13/2017 4:01 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 78. A proprietorship is an unincorporated business owned by one individual and the owner benefits from the limited liability for business, which limits personal losses to what the proprietor has invested in the company.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | A proprietorship is an unincorporated business owned by one individual. The proprietor has unlimited personal liability for business debts because any debts of the business are considered obligations of the sole owner. See 1-2: Alternative Forms of Business Organization | | *Incorrect* | A proprietorship is an unincorporated business owned by one individual. The proprietor has unlimited personal liability for business debts because any debts of the business are considered obligations of the sole owner. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Business ownership forms|Sole proprietorships | | *DATE CREATED:* | 12/13/2017 4:05 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 79. The corporate charter is a document filed with the secretary of the state in which a firm is incorporated that provides information about the corporation, including its name, address, directors, and amount of capital stock.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | A corporate charter, which provides general information, including the name of the corporation, types of activities it will pursue, amount of stock that will be issued initially, and so forth, must be filed with the secretary of the state in which a firm incorporates. See 1-2: Alternative Forms of Business Organization | | *Incorrect* | A corporate charter, which provides general information, including the name of the corporation, types of activities it will pursue, amount of stock that will be issued initially, and so forth, must be filed with the secretary of the state in which a firm incorporates. See 1-2: Alternative Forms of Business Organization | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Alternative Forms of Business Organization | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.02 - Identify different forms of business organization as well as the advantages and disadvantages of each. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Business ownership forms|Corporations | | *DATE CREATED:* | 12/13/2017 4:07 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 80. In general, the role of a financial manager is to plan for the acquisition and use of funds so as to maximize the value of the firm.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | The appropriate goal for management decisions is to consider the risk and timing associated with expected cash flows to maximize the price of a firm's common stock. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | The appropriate goal for management decisions is to consider the risk and timing associated with expected cash flows to maximize the price of a firm's common stock. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Wealth maximization|Financial management|Financial performance | | *DATE CREATED:* | 12/13/2017 4:10 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 81. To properly maximize the value of the firm, the financial manager should execute his or her duties independent of the cash flow decisions made by other senior managers.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Wealth maximization|Financial management | | *DATE CREATED:* | 12/13/2017 4:12 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 82. As hostile takeovers are most likely to occur when a firm's stock is overvalued, the managers have a strong incentive to undervalue the firm's stock relative to its potential.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Hostile takeovers are most likely to occur when a firm's stock is undervalued relative to its potential. Thus, to avoid takeover threats, managers have a strong incentive to take actions that maximize stock prices. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | Hostile takeovers are most likely to occur when a firm's stock is undervalued relative to its potential. Thus, to avoid takeover threats, managers have a strong incentive to take actions that maximize stock prices. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Takeover|Financial management | | *DATE CREATED:* | 12/13/2017 4:14 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 83. The proper goal of the financial manager should be to maximize the firm's expected profit, because this will add the most wealth to each of the individual shareholders (owners) of the firm.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Wealth maximization|Financial management|Organizational goal setting | | *DATE CREATED:* | 12/13/2017 4:17 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 84. Financial managers should seek the combination of assets, liabilities, and capital that generate the largest expected projected income in the current accounting period.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | Managers can increase the value of a firm by making decisions that increase the firm's expected future cash flows, generate the expected cash flows sooner, increase the certainty of the expected cash flows, or produce any combination of these actions. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Wealth maximization|Financial management|Organizational goal setting | | *DATE CREATED:* | 12/13/2017 4:19 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 85. The riskiness inherent in a firm's earnings per share (EPS) depends on both, the types of projects the firm takes on and the manner in which the projects are financed.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | A primary reason EPS receives so much attention is the belief that net income, and thus EPS, can be used as a barometer for measuring a firm's potential for generating future cash flows. Although current earnings and cash flows are generally highly correlated, a firm's value is determined by the cash flows it is expected to generate in the future, as well as the risk associated with those expected cash flows. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | A primary reason EPS receives so much attention is the belief that net income, and thus EPS, can be used as a barometer for measuring a firm's potential for generating future cash flows. Although current earnings and cash flows are generally highly correlated, a firm's value is determined by the cash flows it is expected to generate in the future, as well as the risk associated with those expected cash flows. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Net income|Earnings per share | | *DATE CREATED:* | 12/13/2017 4:21 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 86. If a firm raises its product prices beyond reasonable levels, it will generally lose some of its market share.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | In a reasonably competitive economy, which exists in the United States, prices are constrained by competition and consumer resistance. If a firm raises its prices beyond reasonable levels, it will simply lose its market share. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | In a reasonably competitive economy, which exists in the United States, prices are constrained by competition and consumer resistance. If a firm raises its prices beyond reasonable levels, it will simply lose its market share. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Organizational goal setting|Net income|Financial performance | | *DATE CREATED:* | 12/13/2017 4:23 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 87. If a firm's managers want to maximize stock price, it is in their best interests to operate efficient, low-cost plants, develop new and safe products that consumers want, and maintain good relationships with customers, suppliers, creditors, and the communities in which they operate.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Stock price maximization requires efficient, low-cost plants that produce high-quality goods and services that are sold at the lowest possible prices. It also requires the development of products that consumers want and need. Finally, stock price maximization necessitates efficient and courteous service, adequate stocks of merchandise, and well located business establishments. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | Stock price maximization requires efficient, low-cost plants that produce high-quality goods and services that are sold at the lowest possible prices. It also requires the development of products that consumers want and need. Finally, stock price maximization necessitates efficient and courteous service, adequate stocks of merchandise, and well located business establishments. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Organizational goal setting|Wealth maximization | | *DATE CREATED:* | 12/13/2017 4:25 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 88. A financial manager's task is to make decisions concerning the acquisition and use of funds for the greatest benefit of the firm.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | The appropriate goal for management decisions is to consider the risk and timing associated with expected cash flows to maximize the price of a firm's common stock. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | The appropriate goal for management decisions is to consider the risk and timing associated with expected cash flows to maximize the price of a firm's common stock. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Organizational goal setting|Financial performance | | *DATE CREATED:* | 12/13/2017 4:28 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 89. Incentive compensation plans are used to attract and retain top managerial talent as well as to align the interests of management with shareholders.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | All incentive compensation plans should be designed to accomplish two things: (1) Provide inducements to executives to act on those factors under their control in a manner that will contribute to stock price maximization. (2) Attract and retain top-level executives. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | All incentive compensation plans should be designed to accomplish two things: (1) Provide inducements to executives to act on those factors under their control in a manner that will contribute to stock price maximization. (2) Attract and retain top-level executives. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Executive compensation|Wealth maximization | | *DATE CREATED:* | 12/13/2017 4:30 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 90. In a competitive marketplace, if managers deviate too far from making decisions that are consistent with stockholder wealth maximization, they risk being disciplined by the market. Part of this discipline involves the threat of being taken over by companies with policies that are more aligned with stockholder interests.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Hostile takeovers are most likely to occur when a firm's stock is undervalued relative to its potential, which often is caused by inefficient operations that result from poor management. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | Hostile takeovers are most likely to occur when a firm's stock is undervalued relative to its potential, which often is caused by inefficient operations that result from poor management. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Executive compensation|Takeover|Financial performance | | *DATE CREATED:* | 12/13/2017 4:32 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 91. Having the manager's compensation tied to the company's performance increases the agency problem that corporations face.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | The potential conflict between two parties—the principals (outside shareholders) and the agents (managers)—is an agency problem. A common method used to motivate managers to operate in a manner consistent with stock price maximization is to tie managers' compensation to the company's performance. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | The potential conflict between two parties—the principals (outside shareholders) and the agents (managers)—is an agency problem. A common method used to motivate managers to operate in a manner consistent with stock price maximization is to tie managers' compensation to the company's performance. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Agency problem|Executive compensation | | *DATE CREATED:* | 12/13/2017 4:35 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 92. Managers of firms that use alternative accounting techniques to inflate current earnings are likely to generate long-term benefits to the shareholders of the firm.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Financial managers who attempt to maximize earnings might not maximize value because earnings maximization is a shortsighted goal. See 1-3: What Goal(s) Should Businesses Pursue? | | *Incorrect* | Financial managers who attempt to maximize earnings might not maximize value because earnings maximization is a shortsighted goal. See 1-3: What Goal(s) Should Businesses Pursue? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Moderate | | *REFERENCES:* | What Goal(s) Should Businesses Pursue? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.03 - Identify major goals that firms pursue and what a firm's primary goal should be. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Net income|Financial management | | *DATE CREATED:* | 12/13/2017 4:37 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 93. In a competitive marketplace, "good ethics" is a wonderful idea but an impractical standard, because there are simply too few benefits to be gained from maintaining high business ethics.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Most executives of major firms in the United States believe that there is a positive correlation between ethics and long-run profitability because ethical behavior prevents fines and legal expenses, builds public trust, attracts business from customers who appreciate and support ethical policies, attracts and keeps employees of the highest caliber, and supports the economic viability of the communities where these firms operate. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | *Incorrect* | Most executives of major firms in the United States believe that there is a positive correlation between ethics and long-run profitability because ethical behavior prevents fines and legal expenses, builds public trust, attracts business from customers who appreciate and support ethical policies, attracts and keeps employees of the highest caliber, and supports the economic viability of the communities where these firms operate. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Roles do Ethics and Governance Play in Business Success? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.04 - Explain the roles ethics and good governance play in successful businesses. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Business ethics|Corporate governance | | *DATE CREATED:* | 12/13/2017 4:39 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 94. No firm can take cost-increasing, socially responsible actions in a competitive marketplace and expect to continue to effectively compete, even if those cost-increasing actions yield significant benefits to the firm.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Firms that develop governance structures that make it easier to identify and correct accounting problems and potentially unethical or fraudulent practices perform better than firms that have poor governance policies. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | *Incorrect* | Firms that develop governance structures that make it easier to identify and correct accounting problems and potentially unethical or fraudulent practices perform better than firms that have poor governance policies. See 1-4: What Roles do Ethics and Governance Play in Business Success? | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | What Roles do Ethics and Governance Play in Business Success? | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.04 - Explain the roles ethics and good governance play in successful businesses. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Business ethics|Corporate governance | | *DATE CREATED:* | 12/13/2017 4:42 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 95. Cultural differences do not impact the multinational corporations as they expand into different geographic regions.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Even within geographic regions long considered fairly homogeneous, different countries have distinctive cultural heritages that shape values and influence the role of business in the society. See 1-5: Forms of Businesses in Other Countries | | *Incorrect* | Even within geographic regions long considered fairly homogeneous, different countries have distinctive cultural heritages that shape values and influence the role of business in the society. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Global business environment|Multinational corporations|International sociocultural differences | | *DATE CREATED:* | 12/13/2017 4:44 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 96. Exchange rate risk is the risk that the cash flows from a foreign project will be worth less than those same cash flows denominated in the parent company's home currency.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Cash flows in various parts of a multinational corporate system are often denominated in different currencies. An analysis of exchange rates and the effects of fluctuating currency values must be included in all multinational financial analyses. See 1-5: Forms of Businesses in Other Countries | | *Incorrect* | Cash flows in various parts of a multinational corporate system are often denominated in different currencies. An analysis of exchange rates and the effects of fluctuating currency values must be included in all multinational financial analyses. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Global business environment|Multinational corporations|Exchange rates | | *DATE CREATED:* | 12/13/2017 4:47 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 97. The term multinational corporation is used to describe a firm that operates in two or more countries.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | Large firms, both in the United States and in other countries, generally do not operate in a single country; rather, they conduct business throughout the world. The term multinational corporation is used to describe a firm that operates in two or more countries. See 1-5: Forms of Businesses in Other Countries | | *Incorrect* | Large firms, both in the United States and in other countries, generally do not operate in a single country; rather, they conduct business throughout the world. The term multinational corporation is used to describe a firm that operates in two or more countries. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Global business environment|Multinational corporations | | *DATE CREATED:* | 12/13/2017 4:49 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 98. Nations do not have the sovereignty to takeover (expropriate) the assets of a firm without compensation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | A nation is free to place constraints on the transfer of corporate resources and even to expropriate—that is, take for public use—the assets of a firm without compensation. See 1-5: Forms of Businesses in Other Countries | | *Incorrect* | A nation is free to place constraints on the transfer of corporate resources and even to expropriate—that is, take for public use—the assets of a firm without compensation. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Global business environment|Multinational corporations|Political risk | | *DATE CREATED:* | 12/13/2017 4:51 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |

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| 99. Industrial groups are organizations comprised of companies in different industries with common ownership interests, which include firms necessary to sell and manufacture products.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | | *FEEDBACK:* | |  |  | | --- | --- | | *Correct* | In some parts of the world, firms belong to industrial groups, which are organizations comprised of companies in different industries that have common ownership interests and, in some instances, shared management. See 1-5: Forms of Businesses in Other Countries | | *Incorrect* | In some parts of the world, firms belong to industrial groups, which are organizations comprised of companies in different industries that have common ownership interests and, in some instances, shared management. See 1-5: Forms of Businesses in Other Countries | | | *POINTS:* | 1 | | *DIFFICULTY:* | Easy | | *REFERENCES:* | Forms of Businesses in Other Countries | | *QUESTION TYPE:* | True / False | | *HAS VARIABLES:* | False | | *LEARNING OBJECTIVES:* | CFIN6.BESL.19.01.05 - Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms. | | *ACCREDITING STANDARDS:* | Analytic | | *KEYWORDS:* | Bloom’s Understand | | *OTHER:* | Global business environment|Multinational corporations|International sociocultural differences | | *DATE CREATED:* | 12/13/2017 4:53 AM | | *DATE MODIFIED:* | 12/21/2017 12:41 AM | |