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|  |     \* The par value of the common stock is $1 per share. |

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| 1. | What is the amount of the net cash from investment activity for 2007?

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| A. | $37,300 |
| B. | $41,800 |
| C. | $46,400 |
| D. | $52,000 |
| E. | $52,400 |

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| 2. | A firm has total debt of $1,850 and a debt-equity ratio of .64. What is the value of the total assets?

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| --- | --- |
| A. | $1,128.05 |
| B. | $1,184.00 |
| C. | $2,571.95 |
| D. | $3,034.00 |
| E. | $4,740.63 |

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| 3. | A firm has net working capital of $2,580, net fixed assets of $13,120, sales of $22,580, and current liabilities of $1,610. How many dollars worth of sales are generated from every $1 in total assets?

|  |  |
| --- | --- |
| A. | $1.27 |
| B. | $1.30 |
| C. | $1.67 |
| D. | $1.72 |
| E. | $1.75 |

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| 4. | The price-sales ratio is especially useful when analyzing firms that have:

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| A. | volatile market prices. |
| B. | negative earnings. |
| C. | positive PEG ratios. |
| D. | a negative Tobin's Q. |
| E. | increasing sales. |

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| 5. | Steubenville Liquidators wants to raise $6.2 million to expand their business. To accomplish this, they plan to sell 20-year, $1,000 face value, zero-coupon bonds. The bonds will be priced to yield 9.5 percent. What is the minimum number of bonds they must sell to raise the $6.2 million they need?

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| A. | 38,078 |
| B. | 42,500 |
| C. | 54,500 |
| D. | 57,500 |
| E. | 61,333 |

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| 6. | The break-even tax rate between a taxable corporate bond yielding 6.5 percent and a comparable nontaxable municipal bond yielding 4 percent can be expressed as:

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| --- | --- |
| A. | .065 (1 t\*) = .04. |
| B. | .04 (1 t\*) = .065. |
| C. | .065 + (1 t\*) = .04. |
| D. | .065 (1 t\*) = .04. |
| E. | .04 (1 t\*) = .065. |

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| 7. | Atlas Movers is issuing $1,000 face value zero coupon bonds at a quoted price of 38.70. What is the amount you would pay to purchase one of these bonds?

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| --- | --- |
| A. | $38.70 |
| B. | $387.00 |
| C. | $961.30 |
| D. | $1,000.00 |
| E. | $1,038.70 |

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| 8. | The current yield on Martin's Mills common stock is 3.6 percent. The company just paid a $1.80 dividend and plans to pay $1.86 next year. The dividend growth rate is expected to remain constant at the current level. What is the required rate of return on this stock?

|  |  |
| --- | --- |
| A. | 3.72 percent |
| B. | 4.08 percent |
| C. | 5.69 percent |
| D. | 6.93 percent |
| E. | 7.05 percent |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | The common stock of Ruby Janes pays a constant annual dividend. Thus, the market price of Ruby Janes stock will:

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| --- | --- |
| A. | also remain constant. |
| B. | increase over time. |
| C. | decrease over time. |
| D. | increase when the market rate of return increases. |
| E. | decrease when the market rate of return increases. |

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| 10. | Berber Mills has a capital structure which includes bonds, preferred stock, and common stock. The firm's common stock shareholders are most to apt to have which of the following rights? I. right to all the corporate profitsII. sole right to elect the corporate directorsIII. right to vote on proposed mergersIV. right to the residual assets in a liquidation

|  |  |
| --- | --- |
| A. | I and II only |
| B. | II and III only |
| C. | I and IV only |
| D. | II, III, and IV only |
| E. | I, II, III, and IV |

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| 11. | Last week, Northern Railways paid an annual dividend of $2.44 per share. The company has been reducing the dividends by 15 percent each year. How much are you willing to pay to purchase stock in this company if your required rate of return is 16 percent?

|  |  |
| --- | --- |
| A. | $6.69 |
| B. | $7.87 |
| C. | $36.60 |
| D. | $244.00 |
| E. | $280.06 |

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| 12. | Lake Shore Vineyards recently paid a $4.20 annual dividend on their common stock. This dividend increases at an average rate of 4.2 percent per year. The stock is currently selling for $80.65 a share. What is the market rate of return?

|  |  |
| --- | --- |
| A. | 5.21 percent |
| B. | 5.43 percent |
| C. | 5.67 percent |
| D. | 9.41 percent |
| E. | 9.63 percent |

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| 13. | Assume you are using the dividend growth model to value stocks. If you expect the market rate of return to increase across the board on all equity securities, then you should also expect the:

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| --- | --- |
| A. | market values of all stocks to increase, all else constant. |
| B. | market values of all stocks to remain constant as the dividend growth will offset the increase in the market rate. |
| C. | market values of all stocks to decrease. |
| D. | dividend-paying stocks to maintain a constant price while non-dividend paying stocks decrease in value. |
| E. | dividend growth rates to increase to offset this change. |

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| 14. | Wilmington Importers preferred stock pays a $5 annual dividend. What is the maximum price you are willing to pay for one share of this stock if your required return is 15.5 percent?

|  |  |
| --- | --- |
| A. | $32.26 |
| B. | $35.48 |
| C. | $72.68 |
| D. | $77.50 |
| E. | $79.81 |

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| 15. | Textile Importers paid a $1.60 per share annual dividend last week. Dividends are expected to increase by 4 percent annually. What is one share of this stock worth to you today if your required rate of return is 13.5 percent?

|  |  |
| --- | --- |
| A. | $16.84 |
| B. | $17.52 |
| C. | $19.23 |
| D. | $19.87 |
| E. | $20.59 |

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| 16. | The president of your firm would like to offer special sale prices to your best customers under the following terms: The prices will apply only to units purchased in excess of those normally purchased by the customer. The units purchased must be paid for in cash at the time of sale. The total quantity sold under these terms cannot exceed the excess capacity of the firm. The net profit of the firm should not be affected either positively or negatively. Given these conditions, the special sale price should be set equal to the:

|  |  |
| --- | --- |
| A. | average variable cost. |
| B. | average total cost minus the marginal cost. |
| C. | sensitivity value of the variable cost. |
| D. | marginal cost. |
| E. | marginal cost minus the average fixed cost per unit. |

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|  | The Franklin Co. is analyzing a proposed project. The company expects to sell 3,500 units, give or take 15 percent. The expected variable cost per unit is $6 and the expected fixed costs are $15,500. Cost estimates are considered accurate within a plus or minus 5 percent range. The depreciation expense is $6,000. The sales price is estimated at $21 a unit, give or take 3 percent. The company bases their sensitivity analysis on the base case scenario. |

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| 17. | The company conducts a sensitivity analysis using a variable cost of $10. The total cost estimate, excluding depreciation, will be:

|  |  |
| --- | --- |
| A. | $15,500 |
| B. | $19,000 |
| C. | $35,000 |
| D. | $50,500 |
| E. | $62,000 |

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| 18. | Roger just completed analyzing a project. His analysis indicates that the project will have a 5-year life and require an initial cash outlay of $225,000. Annual sales are estimated at $685,000 and the tax rate is 35 percent. The net present value is a negative $225,000. Based on this analysis, the project is expected to operate at the:

|  |  |
| --- | --- |
| A. | maximum possible level of production. |
| B. | minimum possible level of production. |
| C. | financial break-even point. |
| D. | accounting break-even point. |
| E. | cash break-even point. |

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| 19. | A coworker is in charge of a project that has a degree of operating leverage of 2.0. What will happen to the operating cash flows if your coworker decreases the number of units sold by 10 percent?

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| --- | --- |
| A. | 10 percent decrease |
| B. | 20 percent decrease |
| C. | 5 percent increase |
| D. | 10 percent increase |
| E. | 20 percent increase |

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|  | The Quick Producers Co. is analyzing a proposed project. The company expects to sell 10,000 units, give or take 5 percent. The expected variable cost per unit is $6 and the expected fixed cost is $29,000. The fixed and variable cost estimates are considered accurate within a plus or minus 4 percent range. The depreciation expense is $25,000. The tax rate is 34 percent. The sale price is estimated at $13 a unit, give or take 6 percent. |

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| 20. | What is the earnings before interest and taxes under the base case scenario?

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| --- | --- |
| A. | $10,560 |
| B. | $16,000 |
| C. | $22,440 |
| D. | $41,000 |
| E. | $66,000 |

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| 21. | All else constant, the accounting break-even level of sales will decrease when the:

|  |  |
| --- | --- |
| A. | fixed costs increase. |
| B. | depreciation expense decreases. |
| C. | contribution margin decreases. |
| D. | variable costs per unit increase. |
| E. | selling price per unit decreases. |

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| 22. | What is the portfolio variance if 55 percent is invested in stock S and 45 percent is invested in stock T?

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| --- | --- |
| A. | .001314 |
| B. | .003148 |
| C. | .009128 |
| D. | .036250 |
| E. | .056106 |

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| 23. | What is the standard deviation of a portfolio which is invested 15 percent in stock A, 45 percent in stock B and 40 percent in stock C?

|  |  |
| --- | --- |
| A. | 1.0 percent |
| B. | 2.5 percent |
| C. | 5.0 percent |
| D. | 7.6 percent |
| E. | 9.5 percent |

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| 24. | The expected return on Joseph's Restaurant's stock is 14.25 percent while the expected return on the market is 12.38 percent. The stock's beta is 1.18. What is the risk-free rate of return?

|  |  |
| --- | --- |
| A. | 1.99 percent |
| B. | 2.04 percent |
| C. | 2.48 percent |
| D. | 3.23 percent |
| E. | 3.68 percent |

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| 25. | You own a portfolio with the following expected returns given the various states of the economy. What is the overall portfolio expected return?

|  |  |
| --- | --- |
| A. | 7.71 percent |
| B. | 9.60 percent |
| C. | 12.76 percent |
| D. | 13.25 percent |
| E. | 14.88 percent |

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| 26. | Which one of the following statements is correct?

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| --- | --- |
| A. | The unexpected return is always negative. |
| B. | The expected return minus the unexpected return is equal to the total return. |
| C. | Over time, the average return is equal to the unexpected return. |
| D. | The expected return includes the surprise portion of news announcements. |
| E. | Over time, the average unexpected return will be zero. |

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| 27. | Which of the following statements concerning risk are correct? I. Nondiversifiable risk is measured by beta.II. The risk premium increases as diversifiable risk increases.III. Systematic risk is another name for nondiversifiable risk.IV. Diversifiable risks are those risks you cannot avoid if you are invested in the financial markets.

|  |  |
| --- | --- |
| A. | I and III only |
| B. | II and IV only |
| C. | I and II only |
| D. | III and IV only |
| E. | I, II, and III only |

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| 28. | Which one of the following statements is correct concerning a portfolio beta?

|  |  |
| --- | --- |
| A. | Portfolio betas range between 1.0 and +1.0. |
| B. | A portfolio beta is a weighted average of the betas of the individual securities contained in the portfolio. |
| C. | A portfolio beta cannot be computed from the betas of the individual securities comprising the portfolio because some risk is eliminated via diversification. |
| D. | A portfolio of U.S. Treasury bills will have a beta of +1.0. |
| E. | The beta of a market portfolio is equal to zero. |

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| 29. | Which one of the following is the slope of the security market line?

|  |  |
| --- | --- |
| A. | reward-to-risk ratio |
| B. | portfolio weight |
| C. | beta coefficient |
| D. | risk-free interest rate |
| E. | market risk premium |

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| 30. | You have a portfolio consisting solely of stock A and stock B. The portfolio has an expected return of 10.8 percent. Stock A has an expected return of 13 percent while stock B is expected to return 8 percent. What is the portfolio weight of stock A?

|  |  |
| --- | --- |
| A. | 38 percent |
| B. | 44 percent |
| C. | 56 percent |
| D. | 64 percent |
| E. | 78 percent |

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| 31. | What is the variance of a portfolio consisting of $5,500 in stock G and $4,500 in stock H?

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| --- | --- |
| A. | .000387 |
| B. | .000778 |
| C. | .001482 |
| D. | .019677 |
| E. | .038496 |

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| 32. | The market rate of return is eleven percent and the risk-free rate of return is four percent. Treynak stock has three percent more risk than the market and has an actual return of eleven percent. This stock:

|  |  |
| --- | --- |
| A. | is underpriced. |
| B. | is correctly priced. |
| C. | will plot below the security market line. |
| D. | will plot on the security market line. |
| E. | will plot to the left of the overall market on a security market line graph. |

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| 33. | The common stock of Abbott International has an expected return of 15.6 percent. The return on the market is 12.7 percent and the risk-free rate of return is 3.9 percent. What is the beta of this stock?

|  |  |
| --- | --- |
| A. | .92 |
| B. | 1.23 |
| C. | 1.33 |
| D. | 1.67 |
| E. | 1.77 |

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| 34. | The dividend growth model:

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| --- | --- |
| A. | is only as reliable as the estimated rate of growth. |
| B. | can only be used if historical dividend information is available. |
| C. | considers the risk that future dividends may vary from their estimated values. |
| D. | applies only when a firm is currently paying dividends. |
| E. | uses beta to measure the systematic risk of a firm. |

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| 35. | Which one of the following statements is correct concerning the weighted average cost of capital (WACC)?

|  |  |
| --- | --- |
| A. | The WACC may decrease as a firm's debt-equity ratio increases. |
| B. | When computing the WACC, the weight assigned to the preferred stock is based on the coupon rate multiplied by the par value of the stock. |
| C. | A firm's WACC will decrease as the corporate tax rate decreases. |
| D. | The weight of the common stock used in the computation of the WACC is based on the number of shares outstanding multiplied by the book value per share. |
| E. | The WACC will remain constant unless a firm retires some of its debt. |

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| 36. | McKean, Inc. has a debt-equity ratio of .70 and a tax rate of 34 percent. The firm does not issue preferred stock. The cost of equity is 12 percent and the aftertax cost of debt is 6 percent. What is McKean's weighted average cost of capital?

|  |  |
| --- | --- |
| A. | 7.3 percent |
| B. | 7.9 percent |
| C. | 8.5 percent |
| D. | 8.7 percent |
| E. | 9.5 percent |

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| 37. | The cost of capital assigned to an individual project should be that rate which:

|  |  |
| --- | --- |
| A. | corresponds to the risk level of the firm's division which has responsibility for the project. |
| B. | is relevant to the intended use of the funds. |
| C. | equals the firm's WACC unless the pure play approach is utilized. |
| D. | is the firm's current weighted average cost of capital. |
| E. | represents the actual sources of funds used for the project. |

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| 38. | The subjective approach to project analysis:

|  |  |
| --- | --- |
| A. | is used only when the firm is an all-equity firm. |
| B. | uses the WACC of firm X as the basis for the discount rate for a project under consideration by firm Y. |
| C. | assigns discount rates to projects based on the discretion of the senior managers of a firm. |
| D. | allows managers to randomly adjust the discount rate assigned to a project once the project's beta has been determined. |
| E. | applies a lower discount rate to projects that are financed with internal rather than external equity. |

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| 39. | Sundial Enterprises common stock is currently priced at $33.20 a share. The company just paid $1.40 per share as their annual dividend. The dividends have been increasing by 3 percent annually and are expected to continue doing so. What is the cost of equity for Sundial Enterprises?

|  |  |
| --- | --- |
| A. | 7.22 percent |
| B. | 7.34 percent |
| C. | 7.49 percent |
| D. | 7.61 percent |
| E. | 7.82 percent |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. | Antonio's Pizzeria has 8 percent preferred stock outstanding that sells for $71 a share. This stock was originally issued at $58 per share. What is Antonio's cost of preferred stock?

|  |  |
| --- | --- |
| A. | 8.00 percent |
| B. | 10.50 percent |
| C. | 11.27 percent |
| D. | 13.79 percent |
| E. | 16.00 percent |

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| 41. | The Warren Co. has a capital structure which is based on 20 percent debt, 35 percent preferred stock, and 45 percent common stock. The flotation costs are 9 percent for common stock, 10 percent for preferred stock, and 5 percent for debt. The corporate tax rate is 34 percent. What is the weighted average flotation cost?

|  |  |
| --- | --- |
| A. | 6.79 percent |
| B. | 7.55 percent |
| C. | 8.21 percent |
| D. | 8.55 percent |
| E. | 9.05 percent |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. | Photo Imaging, Inc. has paid annual dividends of $1.00, $1.05, $1.10, and $1.18 per share over the last four years, respectively. The stock is currently selling for $38 a share. What is this firm's cost of equity?

|  |  |
| --- | --- |
| A. | 8.79 percent |
| B. | 8.96 percent |
| C. | 10.38 percent |
| D. | 10.53 percent |
| E. | 11.79 percent |

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| 43. | Wayne's of New York specializes in clothing for female executives living and working in the financial district of New York City. Allen's of PA. specializes in clothing for women who live and work in the rural areas of Western Pennsylvania. Both firms are currently considering expanding their clothing line to encompass working women in the rural upstate region of New York state. Wayne's currently has a cost of capital of 11 percent while Allen's cost of capital is 9 percent. The expansion project has a projected net present value of $36,900 at a 9 percent discount rate and a net present value of   $13,200 at an 11 percent discount rate. Which firm or firms should expand into rural New York state?

|  |  |
| --- | --- |
| A. | Wayne's only |
| B. | Allen's only |
| C. | both Wayne's and Allen's |
| D. | neither Wayne's nor Allen's |
| E. | cannot be determined from the information provided |

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| 44. | The cost of equity for a firm is:

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| A. | dependent upon the firm's debt-equity ratio. |
| B. | based on estimates derived from financial models. |
| C. | equivalent to a leveraged firm's cost of capital. |
| D. | equal to the risk-free rate of return plus the market risk premium. |
| E. | equal to the firm's pretax weighted average cost of capital. |

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| 45. | The weighted average of a firm's cost of equity and aftertax cost of debt is called the:

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| --- | --- |
| A. | reward to risk ratio. |
| B. | weighted capital gains rate. |
| C. | pure play cost of capital. |
| D. | subjective cost of capital. |
| E. | weighted average cost of capital. |

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