Sample Finance Quiz

1. The \_\_\_\_\_\_ is the annual rate of interest earned on a security purchased on a given date and held to maturity.
2. Term Structure
3. Yield Curve
4. Risk-free Rate
5. Yield to maturity
6. If a new asset is being considered as a replacement for an old asset, the relevant cash flows would be found by adding the expected cash flows attributed to old asset and the expected cash flows for new asset.
7. True
8. False
9. A firm with limited dollars available for capital expenditures is subject to
10. Capital Dependency
11. Working Capital Constraints
12. Capital Rationing
13. Mutually Exclusive Projects
14. The credit applicants \_\_\_\_\_\_\_\_ is its ability to repay the requested credit.
15. Collateral
16. Capacity
17. Character
18. Capital
19. When managing accounts receivable, a good strategy to employ without losing future sales is to
20. Tighten the terms
21. Offer cash discounts
22. Send the accounts to a collection agency
23. Make frequent personal visits to the customer
24. The \_\_\_\_\_\_ rate of interest is typically the rate of return on a three-month U.S. Treasury bill.
25. Premium
26. Nominal
27. Real
28. Tax treatment risk
29. The risk premium consists of a number of components, including all of the following EXCEPT
30. Liquidity Risk
31. Default Risk
32. Inflationary Risk
33. Tax Treatment Risk
34. The \_\_\_\_\_\_\_ is the amount of time it takes the firm to recover its initial investment
35. Average rate of return
36. Internal rate of return
37. Payback period
38. Net present Value
39. The legal contract setting forth the terms and provisions of a corporate bond is a(n)
40. Promissory note
41. Indenture
42. Loan Document
43. Debenture
44. As an outstanding bond approaches maturity, the price of the bond will always trend toward par value until, at maturity, the bond is worth its face value.
45. True
46. False
47. The \_\_\_\_\_\_ is the discount rate that equates the present value of the cash inflows with the initial investment.
48. Average rate of return
49. Internal rate of return
50. Cost of capital
51. Payback period
52. If the required return is less than the coupon rate, a bond will sell at
53. A discount
54. Par
55. Book Value
56. A premium
57. Sunk costs are cash outlays that have already been made and therefore have no effect on the cash flows relevant to the current decision. As a result, sunk costs should not be included in a projects incremental cash flows.
58. False
59. True
60. \_\_\_\_\_\_ yield curve reflects higher expected future rates of interest.
61. An upward-sloping
62. A flat
63. A linear
64. A downward-sloping
65. If a firm is subject to capital rationing, it is able to accept all independent projects that provide an acceptable return.
66. False
67. True
68. Bonds are
69. Long-term debt investments
70. A form of equity financing that pays interest.
71. A series of short-term debt instruments.
72. A hybrid form of financing used to raise large sums of money from a diverse group of lenders.
73. \_\_\_\_\_\_\_ is the process of evaluating and selecting long-term investments consistent with the firm’s goal of owner wealth maximization.
74. Capital budgeting
75. Recapitalizing assets
76. Restructuring debt
77. Ratio Analysis
78. Mutually exclusive projects are those whose cash flows compete with one another; the acceptance of one does not eliminate the others from further consideration.
79. True
80. False
81. As credit standards are relaxed, sales are expected to \_\_\_\_\_\_\_\_ and the investment in accounts receivable is expected to \_\_\_\_\_\_\_.
82. Increase; Increase
83. Increase; Decrease
84. Decrease; Decrease
85. Decrease; Increase
86. The aggressive financing strategy is \_\_\_\_\_\_\_ method while the conservative financing strategy is \_\_\_\_\_\_\_ method.
87. A high-profit, high-risk; a low profit, low-risk
88. A low-profit, low-risk; a high-profit, high-risk
89. A low-profit, high-risk; a high-profit, low-risk
90. A high-profit, low-risk; a low-profit, high-risk
91. The \_\_\_\_\_\_\_ feature permits the issuer to repurchase bonds at a stated price prior to maturity.
92. Capitalization
93. Conversion
94. Call
95. Put
96. The ABC Company has two bonds outstanding that are the same except for the maturity date. Bond D matures in 4 years, while Bond E matures in 7 years. If the required return changes by 15 percent
97. Bond E will have a greater change in price.
98. The price change for the bonds will be equal.
99. The price of the bonds will be constant.
100. Bond D will have a greater change in price.
101. If the payback period is less than the maximum acceptable payback period, we would accept a project.
102. True
103. False
104. One way to improve the cash conversion cycle is to
105. Borrow funds.
106. Slow down credit approvals.
107. Speed up collections.
108. Reduce inventory turnover.
109. Certain financing plans are termed conservative when
110. Short-term financing is used frequently.
111. Risk is increased.
112. Working capital is relatively high.
113. Working capital is relatively low.
114. The \_\_\_\_\_\_\_ is an inventory management technique that minimizes inventory investment by having materials inputs arrive at exactly the time they are needed for production.
115. ABC system
116. MRP system
117. JIT system
118. EOQ model
119. An aging schedule breaks down accounts receivable into groups on the basis of the first letter of the name of the company that owes on the account.
120. False
121. True
122. In the EOQ model, if carrying costs increase while all other costs remain unchanged, the number of orders placed would be expected to
123. Remain unchanged
124. Decrease
125. Change without regard to carrying costs
126. Increase
127. 2/15 net 45 translates as
128. 15 percent cash discount if paid in 2 days, net 45-day credit period.
129. 45 percent of account due in 15 days, payment prior to day 15 receives a 2 percent discount.
130. 2 percent cash discount if paid prior to 15 days, if customer does not take a cash discount, the balance is due in 45 days.
131. 2 percent of the balance is due in 15 days, the remaining balance is due in 45 days.

30. A firm is evaluating a proposal which has an initial investment of $50,000 and has cash flows of $15,000 per year for five years. The payback period of the project is approximately:

a. 1.5 years

b. 2 years

c. 3.3 years

d. 4 years

31. What is the approximate yield to maturity for a $1000 par value bond selling for $1,120 that matures in 6 years and pays 12 percent interest annually?

a. 9.4 percent

b. 8.5 percent

c. 13.2 percent

d. 12.0 percent

32. A firm has an average age of inventory of 20 days, an average collection period of 30 days, and an average payment period of 60 days. The firm’s cash conversion cycle is \_\_\_\_\_ days.

a. 70

b. 50

c. -10

d. 110