

Directions: This part contains independent questions. Each of the questions or incomplete statements is followed by four suggested answers or completions. Select the one that is best in each case and then fill in the corresponding space on the answer sheet.

1. Price has historically been the most important tool in the marketing of goods or services that are considered commodities (e.g., milk). To reduce the importance of price, marketers should do which of the following?

- (A) Stress product/service benefits.
- (B) Reduce costs through economies of scale.
- (C) Engage in comparative pricing.
- (D) Use unit pricing as a competitive tool.

2. Formal compensation systems should be established to assist organizations in building internal pay equity, external pay competitiveness, and individual pay incentive. Which of the following best identifies the elements required to build a formal compensation system?

- (A) When a legal union contract exists, merit pay systems must be built in accordance with the terms of the contract.
- (B) A valid job evaluation process must be used to develop agreed-upon criteria for establishing internal pay equity and external pay competitiveness.
- (C) Entry-level salaries for all jobs should be "equal to" or "higher than" competitors' salaries for jobs with similar job responsibilities.
- (D) Valid performance appraisal forms are required to encourage fairness in pay increases across jobs in the organization.

3. Janice, a statistician, recently learned that Andy, another statistician, was paid \$5,000 more than she. Janice and Andy were hired at the same time and both have nearly identical credentials. Which theory of motivation would predict that Janice would decrease the quantity and/or quality of her work?

- (A) Path-goal theory
- (B) Motivator-hygiene theory
- (C) Expectancy theory
- (D) Equity theory

4. Baron Company produces and sells a single product. Due to current industry demand, Baron is able to sell as many units of this product as it can produce at the current market price of \$30. The variable cost structure for the product is as follows:

Variable production cost per unit	\$18
Sales commission paid per unit	\$5

Baron has received a proposal for a special order for 1,000 units of this product. Because the order is being negotiated at the home office, no sales commission would be paid if Baron accepts the special order. In order to maximize company profits, what is the lowest unit price Baron should be willing to accept on the special order?

- (A) \$18
- (B) \$23
- (C) \$25
- (D) \$30



5. Research shows that business travelers are interested in easy-to-use airports, reliable service, and convenient schedules. Vacationers are interested in price, airport location, and number of connections. Travel Airlines wants one promotional campaign to appeal to both segments. If only one ad could be devised for the campaign, it should feature
- (A) destination cities and price
 (B) on-time performance records and price
 (C) in-flight service and price
 (D) images of attractive places and on-time performance
6. Which of the following would make a market efficient?
- (A) Many buyers and sellers competing for wealth
 (B) Government regulation
 (C) A decentralized marketplace
 (D) Costly information
7. Gen-o-Tech Incorporated is a young company issuing zero coupon bonds to finance the construction of a lab that will provide support for the company's DNA research project. The bonds' characteristics are:
- | | |
|---------------|----------|
| Face value | \$1,000 |
| Maturity | 5 years |
| Market return | 14% |
| Price | \$519.36 |
- Consider the following statements regarding this financing decision. Which of the following best explains Gen-o-Tech's choice of financing instruments?
- (A) The project is not likely to generate any positive cash flows for at least five years.
 (B) The company probably has no earnings, so it does not need to issue a regular bond that allows it to deduct the interest payments.
 (C) Zero coupon bonds are easier for the company to sell since they appeal to investors for the consistent and periodic payments they provide.
 (D) Zero coupon bonds are an easier way for the company to finance the project since they do not require investors to pay taxes on the interest income they earn.
8. The owner of a retail store of Native American arts and crafts received a shipment of moccasins. If the unit cost of the moccasins was \$19.50 and the owner wanted to set the price at a 60 percent markup to retail level, the retail price for the moccasins should be
- (A) \$29.25
 (B) \$31.20
 (C) \$32.50
 (D) \$48.75
9. Capital budgeting decisions must consider numerous factors such as risk, the cost of capital, and inflation or, in some cases, hyperinflation. When determining a net present value for a capital project in an inflationary environment, which of the following adjustments should be made?
- (A) Decrease the discount rate only.
 (B) Increase the estimated cash flows and increase the discount rate.
 (C) Increase the estimated cash flows only.
 (D) Increase the estimated cash flows and decrease the discount rate.
10. To effect lasting organizational change nearly always requires changing the organization's culture, which is often difficult to do for a variety of reasons. It will probably be most difficult to bring about organizational change if an organization's culture has many components that
- (A) are long established, public, and visible
 (B) are difficult to define
 (C) were established by the company founder
 (D) involve values, beliefs, and assumptions
11. On Friday, October 16, 1987, the Dow Jones industrial average closed at 2,246.74. The following Monday, it closed at 1,738.74, which was a 508-point drop representing a 22.61% decrease in one day. The market beta was 1. Suppose Company X closed at 3,890 on Friday, October 16. If that company also had a beta of 1 at the time, theoretically what should have happened to the price of the stock on October 19?
- (A) It should have closed at 1,738.74.
 (B) It should have dropped 508 to 3,382.
 (C) It should have decreased 22.61% to 3,010.47.
 (D) It should have remained at 3,890.



12. Most studies indicate that market pioneers, those who are first to market with a new product or service, gain the greatest advantage. However, the advantage is not guaranteed. Which of the following best explains why pioneer advantage is not guaranteed?
- (A) Profits are usually high during product introduction, but hard to maintain due to low sales volumes.
 - (B) Sales growth is fast at product introduction, making it difficult to build production capacity and supply distribution pipelines.
 - (C) As competition and market share become stable, a firm can no longer charge premium prices.
 - (D) The pioneer's resources may not be substantial enough to compete against larger imitators that enter the market.



13. Planning and forecasting human resources in an organization begins with the development of strategic plans for the future. Important elements in the strategic plan for increasing managerial positions are the projected revenues and profits. Consider the following projections:

Projected annual inflation rates	5%
Projected increases in managerial positions	10%
Projected ratio of managerial costs to sales	.47
Projected average span of control	5 : 1
Current ratio of all personnel costs to sales	.73

Based on the projections above, which of the following statements about the plan for increasing managerial positions is most supported?

- (A) The desirability of this increase is high since the managerial ratio (.47) is below the personnel cost ratio (.73).
- (B) Since "salary" costs and "benefits" costs are not listed separately, the desirability of this plan cannot be determined.
- (C) The desirability of this plan depends on the accuracy of the projected inflation rates.
- (D) The desirability of this plan cannot be determined without projections for increases in future revenues during this same period of time.



14. When faced with conflict in the workplace, it is recommended that managers consider the importance of the disagreement vs. the value of the relationship. Which of the following statements best supports this recommendation?
- (A) The best approach for individual managers is to build stronger relationships with all parties in the dispute.
 - (B) Managers should consider their approach to conflict resolution on the basis of two dichotomous continua (assertiveness and cooperativeness) with "compromise" lying between these two choices.
 - (C) A collaborative approach to conflict resolution will increase the probability for meeting a manager's initial interests.
 - (D) The "assertiveness" and "cooperativeness" approaches to conflict resolution are respectively related to "resolving the conflict" and "strengthening relationships."
15. The Fisher equation, which can be used to determine interest rates, has three parts. The first is the real rate of interest, the second is an inflation premium, and the third is a risk premium specific to the company or asset in question. Which of the following is the most important when deciding between investing in a certificate of deposit at a bank or purchasing some stock in that bank?
- (A) The real rate of interest
 - (B) The inflation rate
 - (C) The risk premium
 - (D) All are equally important
16. You are under pressure, as human resource manager, to reduce staff due to lagging sales. Given your firm's use of strategic human resource management, which is the first step you should take?
- (A) Find a way to learn about the changing directions the firm will be taking.
 - (B) Propose across-the-board staff cuts for each department.
 - (C) Conduct an analysis to understand the recent changes of positions of employees within the firm.
 - (D) Implement an early-retirement program to thin the ranks.
17. Scan-based trading is a relatively new means of payment whereby the retailer pays the manufacturer only after the merchandise has been scanned. That is, the inventory belongs to the manufacturer until the customer actually buys it. This trend is explained by which of the following?
- (A) The capability of just-in-time inventory management
 - (B) Stronger channels resulting from retailer-management partnerships
 - (C) A growing shift in power to large retailers
 - (D) Technology's impact on better cash-management techniques
18. The owner-manager of a start-up information technology firm is trying to decide on an organizational structure. Given the nature of the firm's environment — rapidly changing technologies, intense global competition, highly skilled and independent knowledge workers — what organizational structure would be most appropriate?
- (A) Functional
 - (B) Bureaucratic
 - (C) Matrix
 - (D) Organic
19. Rhanl Company is currently exploring whether or not to invest in a new piece of equipment. Using the company's cost of capital of 12% as a discount rate, the net present value of the cash flows for this investment is exactly zero. What would be the company's internal rate of return (IRR) on this investment?
- (A) IRR is zero.
 - (B) IRR is greater than zero but less than 12%.
 - (C) IRR is 12%.
 - (D) IRR is greater than 12%.



20. Which of the following is the most probable reason a company would experience an unfavorable labor-rate variance and a favorable labor-efficiency variance?
- (A) The mix of workers assigned to the particular job was heavily weighted toward the use of higher-paid, experienced individuals.
- (B) The mix of workers assigned to the particular job was heavily weighted toward the use of new, relatively low-paid, unskilled workers.
- (C) Because of the production schedule, workers from other production areas were assigned to assist this particular process.
- (D) Defective materials caused more labor to be used in order to produce a standard unit.
21. Assume that you are a major telecommunications manufacturer who supplies the telecommunications-Internet market. Upon evaluation of your quarterly results, you find that much of your sales have been made on "extended credit" terms to your buyers by supplying them with large lines of credit and very favorable trade terms. The likely impact of this strategy on your marketing plan in the short term is that
- (A) you will have a difficult time collecting payments
- (B) you have stolen sales from the future and must revise forecasts downward
- (C) you will not need to worry, since this is common practice for your industry
- (D) your company is in potential default if your buyers go bankrupt
22. Groco manufactures and sells a single product, with a cost structure as follows.
- | | |
|-------------------------|-------------|
| Variable cost per unit: | \$8.00 |
| Fixed cost per unit: | <u>2.00</u> |
| Total | \$10.00 |
- Groco sells its product at \$14.00 per unit, and has computed its break-even point at 210,000 units per month. If the firm earned \$67,200 last month, how many units did the firm sell?
- (A) 214,800
- (B) 216,720
- (C) 221,200
- (D) 226,800
23. The ZU Company, a retail firm, has 100 million shares outstanding. The company's stock, which has a par value of \$2.00 per share, is currently selling for \$15 per share. The beta of the stock is 1.5. The company has debt outstanding with a face value of \$450 million but a market value of \$500 million with a yield of 12%. The T-bond rate is 7% and the market risk premium is 6%. The company's effective marginal tax rate is 50%. What discount rate should the company use in evaluating its investment projects?
- (A) 12%
- (B) 8%
- (C) 16%
- (D) 13.5%

24. Which of the following best defines effective teams within an organization?
- (A) Work groups that require their group goals and objectives to be agreed to by all members of the group
 - (B) Work groups that build trust among their members that achievement of group goals will also satisfy the individual needs and interests of the team members
 - (C) Work groups that enjoy reduced levels of conflict between individual members and require their group decisions to be made by consensus
 - (D) Work groups that are not directed by a manager or supervisor, but that provide their own team leadership



25. ABC Company produces a single product that has the following cost structure.

Variable manufacturing cost per unit:	\$10.00
Fixed manufacturing cost per unit:	<u>\$8.00</u>
Total production cost per unit:	\$18.00

The fixed manufacturing costs relate to building occupancy, and cannot be avoided for the next few years. ABC normally incurs variable selling cost of \$3.00 per unit and sells the units at \$26.00 per unit.

If ABC is currently operating at less than maximum capacity, what is the maximum that ABC should be willing to pay to another firm that offers to produce the necessary units?

- (A) \$10.00
- (B) \$18.00
- (C) \$21.00
- (D) \$26.00



26. The Webster Company sells a majority of its products on the Internet. Because of a variety of cooperative, long-term relationships with its suppliers, the company has been able to:

- reduce its suppliers from 75 to 5,
- increase the quality of the inputs from the suppliers,
- obtain just-in-time delivery of key product components, and
- obtain a 10 percent reduction in the cost of its supplies.

The Webster Company's competitors have not achieved any of these supplier agreements. Most likely, Webster has achieved a strategic competitive advantage through its

- (A) critical path analysis
- (B) price and value
- (C) supply chain management
- (D) backward integration

27. Your market research department completed a study of consumer attitudes toward various brands of bar soap. They learned that consumer-buying decisions are based on their evaluation of the following attributes: scent, antibacterial capacity, the amount of moisture provided, and type of deodorizing properties. They also learned how consumers form preferences for the attributes. What strategy should you recommend to influence future buyer decisions?

- (A) Persuade buyers to change the importance they place on the different attributes so that buyer preferences match the attributes of your bar soap.
- (B) Create cognitive dissonance among buyers by lowering price and increasing sales promotional efforts.
- (C) Study the buying motives of buyer reference groups to use them to influence the purchase of your brand of bar soap.
- (D) Increase the level of perceived risk for buying competitor brands of bar soap by exploiting consumer confidence.

28. Which of the following organizations is most likely to consider a private placement of long-term debt?

- (A) A large publicly traded consumer goods company
- (B) A local fast-food restaurant chain
- (C) A public utility in a less developed country
- (D) A large financial services firm

29. During the past month, Panco experienced the following significant variances in production.

Material price variance:	Favorable
Material quantity variance:	Unfavorable
Labor rate variance:	Zero
Labor efficiency variance:	Unfavorable

Which of the following scenarios is most consistent with the variance report?

- (A) Workers with lower skill performed the tasks.
 - (B) A cheaper, lower-quality material was used in production.
 - (C) The level of production was higher than anticipated.
 - (D) The market price of the raw material declined.
30. In considering employee-selection procedures, which of the following is most useful to ensure and defend the validity of a screening test?
- (A) Use the test for employee selection for a year and determine whether selected employees have performed well in the job.
 - (B) Give the test to high- and low-performing current employees to see if their scores correlate with their on-the-job performance.
 - (C) Give the test to two randomly chosen groups of applicants to determine whether their scores are the same.
 - (D) Buy a test from a nationally recognized human resource testing firm.