1. **The goal of the firm should be**
2. maximization of profits
3. maximization of shareholder wealth
4. maximization of consumer satisfaction
5. maximization of sales
6. **An example of a primary market transaction is**
7. a new issue of common stock by AT&T
8. a sale of some outstanding common stock of AT&T
9. AT&T repurchasing its own stock from a stockholder
10. one stockholder selling shares of common stock to another individual
11. **According to the agency problem, \_\_\_\_\_\_\_\_\_ represent the principals of a corporation.**
12. Shareholders
13. Managers
14. Managers
15. Suppliers
16. **Which of the following is a principle of basic financial management?**
17. Risk/return tradeoff
18. Derivatives
19. Stock warrants
20. Profit is king
21. **Another name for the acid test ratio is the**
22. current ratio
23. quick ratio
24. inventory turnover ratio
25. inventory turnover ratio
26. **The accounting rate of return on stockholders’ investments is measured by**
27. return on assets
28. return on equity
29. operating income return on investment
30. realized rate of inflation
31. **If you are an investor, which of the following would you prefer?**
32. Earnings on funds invested compound annually
33. Earnings on funds invested compound daily
34. Earnings on funds invested would compound monthly
35. Earnings on funds invested would compound quarterly
36. **The primary purpose of a cash budget is to**
37. determine the level of investment in current and fixed assets
38. determine accounts payable
39. provide a detailed plan of future cash flows
40. determine the estimated income tax for the year
41. **Which of the following is a non-cash expense?**
42. Depreciation expenses
43. Interest expense
44. Packaging costs
45. Administrative salaries
46. **The break-even model enables the manager of a firm to**
47. calculate the minimum price of common stock for certain situations
48. set appropriate equilibrium thresholds
49. determine the quantity of output that must be sold to cover all operating costs
50. determine the optimal amount of debt financing to use
51. **A zero-coupon bond**
52. pays no interest
53. pays interest at a rate less than the market rate
54. is a junk bond
55. is sold at a deep discount at less than the par value
56. **If you have $20,000 in an account earning 8% annually, what constant amount could you withdraw each year and have nothing remaining at the end of 5 years?**
57. $3,525.62
58. $5,008.76
59. $3,408.88
60. $2,465.78
61. **At what rate must $400 be compounded annually for it to grow to $716.40 in 10 years?**
62. 6%
63. 5%
64. 7%
65. 8%
66. **The present value of a single future sum**
67. increases as the number of discount periods increase
68. is generally larger than the future sum
69. depends upon the number of discount periods
70. increases as the discount rate increases
71. **Which of the following is considered to be a spontaneous source of financing?**
72. Operating leases
73. Accounts receivable
74. Inventory
75. Accounts payable
76. **Compute the payback period for a project with the following cash flows, if the company’s discount rate is 12%.

Initial outlay = $450**

**Cash flows:
Year 1 = $325
Year 2 = $65
Year 3 = $100**

1. 3.43 years
2. 3.17 years
3. 2.88 years
4. 2.6 years
5. **For the NPV criteria, a project is acceptable if the NPV is \_\_\_\_\_\_\_\_\_\_, while for the profitability index, a project is acceptable if the profitability index is \_\_\_\_\_\_\_\_\_\_.**
6. less than zero, greater than the required return
7. greater than zero, greater than one
8. greater than one, greater than zero
9. greater than zero, less than one
10. **Which of the following is considered to be a deficiency of the IRR?**
11. It fails to properly rank capital projects.
12. It could produce more than one rate of return.
13. It fails to utilize the time value of money.
14. It is not useful in accounting for risk in capital budgeting.
15. **The firm should accept independent projects if**
16. the payback is less than the IRR
17. the profitability index is greater than 1.0
18. the IRR is positive
19. the NPV is greater than the discounted payback
20. **The most expensive source of capital is**
21. preferred stock
22. new common stock
23. debt
24. retained earnings
25. **The cost associated with each additional dollar of financing for investment projects is**
26. the incremental return
27. the marginal cost of capital
28. risk-free rate
29. beta
30. **The XYZ Company is planning a $50 million expansion. The expansion is to be financed by selling $20 million in new debt and $30 million in new common stock. The before-tax required rate of return on debt is 9%, and the required rate of return on equity is 14%. If the company is in the 40% tax bracket, what is the marginal cost of capital?**
31. 14.0%
32. 14.0%
33. 10.6%
34. 11.5%
35. **Shawhan Supply plans to maintain its optimal capital structure of 30% debt, 20% preferred stock, and 50% common stock far into the future. The required return on each component is: debt–10%; preferred stock–11%; and common stock–18%. Assuming a 40% marginal tax rate, what after-tax rate of return must Shawhan Supply earn on its investments if the value of the firm is to remain unchanged?**
36. 18.0%
37. 13.0%
38. 10.0%
39. 14.2%
40. **Lever Brothers has a debt ratio (debt to assets) of 40%. Management is wondering if its current capital structure is too conservative. Lever Brothers’ present EBIT is $3 million, and profits available to common shareholders are $1,560,000, with 342,857 shares of common stock outstanding. If the firm were to instead have a debt ratio of 60%, additional interest expense would cause profits available to stockholders to decline to $1,440,000, but only 228,571 common shares would be outstanding. What is the difference in EPS at a debt ratio of 60% versus 40%?**
41. $1.75
42. $2.00
43. $3.25
44. $4.50
45. **Zybeck Corp. projects operating income of $4 million next year. The firm’s income tax rate is 40%. Zybeck presently has 750,000 shares of common stock which have a market value of $10 per share, no preferred stock, and no debt. The firm is considering two alternatives to finance a new product: (a) the issuance of $6 million of 10% bonds, or (b) the issuance of 60,000 new shares of common stock. If Zybeck issues common stock this year, what will be the projected EPS next year?**
46. $4.94
47. $2.96
48. $5.33
49. $3.20
50. **\_\_\_\_\_\_\_\_\_ risk is generally considered only a paper gain or loss.**
51. Transaction
52. Translation
53. Economic
54. Financial
55. **Capital markets in foreign countries**
56. offer lower returns than those obtainable in the domestic capital markets
57. provide international diversification
58. in general are becoming less integrated due to the widespread availability of interest rate and currency swaps
59. in general are becoming less integrated due to the widespread availability of interest rate and currency swaps
60. **Buying and selling in more than one market to make a riskless profit is called**
61. profit maximization
62. arbitrage
63. international trading
64. an efficient market
65. **What keeps foreign exchange quotes in two different countries in line with each other?**
66. Cross rates
67. Forward rates
68. Arbitrage
69. Spot rates
70. **One reason for international investment is to reduce**
71. portfolio risk
72. price-earnings (P/E) ratios
73. advantages in a foreign country
74. exchange rate risk

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