

1. award:
1.00 point

What is the primary goal of financial management?

- ☐ Increased earnings
- ☐ Maximizing cash flow
- ☒ Maximizing shareholder wealth
- ☐ Minimizing risk of the firm

2. award:
1.00 point

Proper risk-return management means that

- ☐ the firm should take as few risks as possible.
- ☒ consistent with the objectives of the firm, an appropriate trade-off between risk and return should be determined.
- ☐ the firm should earn the highest return possible.
- ☐ the firm should value future profits more highly than current profits.

3. award:
1.00 point

Which of the following is not a major area of concern and emphasis in modern financial management and in this text?

- ☐ Inflation and its effect on profits
- ☒ Stable short-term interest rates
- ☐ Changing international environment
- ☐ Increased reliance on debt

4. award:
1.00 point

Which of the following is not a major area of concern and emphasis in modern financial management and in this text?

- ☐ Marginal analysis
- ☐ Risk-return trade-off
- ☒ Commodity trading
- ☐ Changing financial institutions

5. award:
1.00 point

The effect of the high rates of inflation experienced during the 1970s and early 1980s was to make

- ☐ financial forecasting more difficult.
- ☐ cost of capital calculations more uncertain.
- ☐ capital budgeting decisions less reliable.
- ☒ all of the other answers are correct

6. award:
1.00 point

In the past, the study of finance has included

- ☐ securities legislation.
- ☐ raising capital.
- ☐ mergers and acquisitions.
- ☒ all of the other answers are correct

7. award:
1.00 point

A financial manager's goal of maximizing current or short-term earnings may not be appropriate because

- ☐ it fails to consider the timing of the benefits.
- ☐ increased earnings may be accompanied by unacceptably higher levels of risk.
- ☐ earnings are subjective; they can be defined in various ways such as accounting or economic earnings.
- ☒ all of the other answers are correct

8. award:
1.00 point

One of the major disadvantages of a sole proprietorship is

- ☒ that there is unlimited liability to the owner.
- ☐ the simplicity of decision making.
- ☐ low organizational costs.
- ☐ low operating costs.

9. award:
1.00 point

The partnership form of organization

- ☒ avoids the double taxation of earnings and dividends found in the corporate form of organization.
- ☐ usually provides limited liability to the partners.
- ☐ has unlimited life.
- ☐ simplifies decision making.

10. award:
1.00 point

A corporation is

- ☐ owned by shareholders who enjoy the privilege of limited liability.
- ☐ easily divisible between owners.
- ☐ a separate legal entity with perpetual life.
- ☒ all of the other answers are correct

11. award:
1.00 point

Inflation

- ☒ increases corporations' reliance on debt for capital expansion needs.
- ☐ creates larger asset values on the firm's historical balance sheet.
- ☐ makes it cheaper (in terms of interest costs) for firms to borrow money.
- ☐ all of the other answers are correct

12. award:
1.00 point

Which of the following securities is not included as part of the capital market?

- ☐ common stock
- ☒ commercial paper
- ☐ government bonds
- ☐ preferred stock

13. award:
1.00 point

Maximization of shareholder wealth is a concept in which

- ☐ increased earnings is of primary importance.
- ☐ profits are maximized on a quarterly basis.
- ☐ virtually all earnings are paid as dividends to common shareholders.
- ☒ optimally increasing the long-term value of the firm is emphasized.

14. award:
1.00 point

The largest Canadian corporations are mainly

- ☐ widely held.
- ☐ family controlled.
- ☐ U.S. controlled.
- ☐ Japanese controlled.

15. award:
1.00 point

Which of the following is not a true statement about the goal of maximizing shareholder wealth?

- ☐ It takes into account the timing of cash-flows.
- ☐ It is a short-run point of view which takes risk into account.
- ☐ It considers risk as a factor.
- ☐ None of the other answers are correct.

16. award:
1.00 point

Increased international competition can be seen as a motivator to emphasize

- ☐ asset diversification strategies.
- ☐ the risk side of the risk-return relationship.
- ☐ the return side of the risk-return relationship.
- ☐ None of the other answers are correct

17. award:
1.00 point

Corporations can reduce portfolio risk by

- ☐ narrowing their focus on one successful product.
- ☐ merging with companies in unrelated industries.
- ☐ repurchasing their own stock.
- ☐ all of the other answers are correct

18. award:
1.00 point

The shift to the return side of the risk return relationship has occurred because

- ☐ many conglomerates over diversified and held marginal and losing divisions.
- ☐ there has been an increase in international competition.
- ☐ there has been an increase in the use of advanced technology in the production process.
- ☐ all of the other answers are correct

19. award:
1.00 point

A corporate buy-back, or the repurchasing of shares, is

- ☐ an example of balance sheet restructuring.
- ☐ an excellent source of profits when the firm's stock is over-priced.
- ☐ a method of reducing the debt-to-equity ratio.
- ☐ all of the other answers are correct

20. award:
1.00 point

Which of the following is(are) a result of high inflation?

- ☐ phantom profits
- ☐ under-valued assets
- ☐ lower profitability
- ☐ all of the other answers are correct

21. award:
1.00 point

A corporate restructuring can result in

- ☐ changes in the capital structure.
- ☐ selling of low-profit margin divisions.
- ☐ reductions in the work force.
- ☒ all of the other answers are correct

22. award:
1.00 point

Which of the following is not an example of restructuring as discussed in the text?

- ☐ repurchase of common stock
- ☒ creating a new organizational chart
- ☐ merging with companies in related industries
- ☐ divesting of an unprofitable division

23. award:
1.00 point

Agency theory deals with the issue of

- ☐ when to hire an agent to represent the firm in negotiations.
- ☐ the legal liabilities of a firm if an employee, acting as the firm's agent, injures someone.
- ☐ the limitations placed on an employee acting as the firm's agent to obligate or bind the firm.
- ☒ the conflicts that can arise between the viewpoints and motivations of a firm's owners and managers.

24. award:
1.00 point

As mergers, acquisitions, and restructurings have increased in importance, agency theory has become more important in assessing whether

- ☐ a stock repurchase should be undertaken.
- ☒ shareholder goals are truly being achieved by managers in the long run.
- ☐ managers are actually agents or only employees of the firm.
- ☐ managers and owners are actually the same people with the same interests.

25. award:
1.00 point

Insider trading occurs when

- ☒ someone has information not available to the public, which they use to profit from trading in stocks.
- ☐ corporate officers buy stock in their company.
- ☐ lawyers, investment dealers, and others buy common stock in companies represented by their firms
- ☐ stock transactions occur with reduced brokerage fees.

26. award:
1.00 point

The major difficulty in most insider-trading cases has been

- ☐ that lenient judges have simply released the guilty individuals.
- ☐ that insider trading, even though illegal, actually serves a beneficial economic and financial purpose.
- ☒ that inside trades have not been legally well defined.
- ☐ inside trades actually have a beneficial effect on the wealth of all shareholders.

27. award:
1.00 point

The 1990 Nobel Prize in economics was given to three finance professors. They are:

- ☒ Harry Markowitz, Merton Miller, William Sharpe
- ☐ Harry Markowitz, Franco Modigliani, Paul Samuelson
- ☐ Merton Miller, Franco Modigliani, Robert Merton
- ☐ William Sharpe, Richard Roll, Steve Ross

28. award:
1.00 point

Future financial managers will need to understand

- ☐ international cash flows.
- ☐ computerized funds transfers.
- ☐ international currency hedging strategies.
- ☒ all of the other answers are correct

29. award:
1.00 point

Professors Harry Markowitz and William Sharpe received their Nobel prize in economics for their contributions to the

- ☐ options pricing model.
- ☐ theories of working capital management.
- ☒ theories of risk-return and portfolio theory.
- ☐ theories of international capital budgeting.

30. award:
1.00 point

In the 1930s, financial practices focused on

- ☐ maintenance of liquidity.
- ☐ reorganization of financially distressed companies.
- ☐ the bankruptcy process.
- ☒ all of the other answers are correct

31. award:
1.00 point

The increasing percentage ownership of public corporations by institutional investors has

- ☐ had no effect on corporate management.
- ☐ created higher returns for the stock market in general.
- ☒ created more pressure on public companies to manage their firms more efficiently.
- ☐ taken away the voice of the individual investor.

32. award:
1.00 point

Money markets would include which of the following securities?

- ☐ common stock and corporate bonds
- ☒ treasury bills and commercial paper
- ☐ certificates of deposit and preferred stock
- ☐ all of the other answers are correct

33. award:
1.00 point

When a corporation uses the financial markets to raise new funds, the sale of securities is made in the

- ☒ primary market.
- ☐ secondary market.
- ☐ on-line market.
- ☐ third market.

34. award:
1.00 point

Companies that have higher risk than a competitor in the same industry will generally have

- ☐ to pay a higher interest rate than its competitors.
- ☐ a lower relative stock price than its competitors.
- ☐ a higher cost of funds than its competitors.
- ☒ all of the other answers are correct

35. award:
1.00 point

The financial markets allocate capital to corporations by

- ☐ reflecting expectations of the market participants in the corporation's share price.
- ☐ requiring higher returns from companies with lower risk than their competitors.
- ☐ rewarding companies with expected high returns with lower relative stock prices.
- ☐ relying on the opinion of investment dealers.

36. award:
1.00 point

Corporate restructuring has been one result of more institutional ownership. Restructuring can cause

- ☐ changes in the asset and liabilities of the firm.
- ☐ the sale of low-profit margin divisions.
- ☐ the removal of current management and/or large reductions in the workforce.
- ☐ all of the other answers are correct

37. award:
1.00 point

Corporate restructuring in the late 1990s more often took the form of

- ☐ leveraged buyouts.
- ☐ mergers to refocus on core businesses.
- ☐ a change in capital structure.
- ☐ none of the other answers are correct

38. award:
1.00 point

The increase in the internationalization of financial markets has led to

- ☐ companies searching the global financial markets for low cost funds.
- ☐ an increase in Canadian companies listing on the New York Stock Exchange.
- ☐ an increase in debt obligations denominated in foreign currency on Canadian corporate balance sheets.
- ☐ all of the other answers are correct

39. award:
1.00 point

The internationalization of the financial markets has

- ☐ allowed firms such as Nortel to raise capital around the world.
- ☐ raised the cost of capital.
- ☐ forced companies to value everything in U.S. dollars.
- ☐ all of the other answers are correct

40. award:
1.00 point

Increased use of technology has increased corporate efficiency by

- ☐ increasing the firm's reliance on debt.
- ☐ creating larger asset values on the firm's balance sheet.
- ☐ made it cheaper (in terms of interest costs) for firms to borrow money.
- ☐ helped to keep corporate costs in check.

41. award:
1.00 point

Maximization of shareholder wealth is a concept in which

- ☐ increased earnings are of primary importance
- ☐ increased cash flows are of primary importance
- ☐ increased dividends are of primary importance
- ☐ increased share price is of primary importance

42. award:
1.00 point

Capital structure is

- ☐ the relative mix of capital and intangible assets held by the firm.
- ☐ the relative importance of debt and equity in the firm's financing.
- ☐ the relative importance of long-term investment decisions.
- ☐ the terms required to borrow money.

43. award:
1.00 point

Financial markets allocate capital based on

- ☐ the pricing mechanism.
- ☐ the efforts of financial intermediaries.
- ☐ intervention by the Bank of Canada.
- ☐ the number of treasury bills outstanding.

44. award:
1.00 point

Corporate governance is the

- ☐ relationship and exercise of oversight by the board of directors of the company.
- ☐ relationship between the chief financial officer and institutional investors.
- ☐ operation of the firm by the chief executive officer (CEO) and other senior executives on the management team.
- ☐ strategically directing the company through the board of directors with a focus on social responsibility.

45. award:
1.00 point

Agency theory examines the relationship between

- ☐ shareholders of the firm and its investment dealers.
- ☐ shareholders of the firm and its managers.
- ☐ the board of directors and large institutional investors.
- ☐ shareholders of the firm and its transfer agent.

46. award:
1.00 point

Agency theory would imply that conflicts are more likely to occur between management and shareholders when

- ☐ the company is owned and operated by the same person.
- ☐ management acts in the best interests of maximizing shareholder wealth.
- ☐ the chairman of the board is also the chief executive officer (CEO).
- ☐ the board of directors exerts strong and involved oversight of managers.

47. award:
1.00 point

The internationalization of the financial markets has

- ☐ lowered the cost of capital
- ☐ raised the cost of capital.
- ☐ forced companies to value everything in U.S. dollars.
- ☐ had no effect on the cost of capital.

48. award:
1.00 point

In analysis of a firm's market share value, an investor should consider:

- ☐ the risk inherent in the firm.
- ☐ the time pattern of the firm's earnings and cash flow.
- ☐ the quality and reliability of reported earnings.
- ☐ All of the other answers are correct.

49. award:
1.00 point

The increasing percentage ownership of public corporations by institutional investors has

- ☐ had no effect on corporate management.
- ☐ created higher returns for the stock market in general.
- ☐ created less pressure on public companies to manage their firms more efficiently.
- ☒ None of the other answers are correct.

50. award:
1.00 point

As finance emerged as an analytical, decision oriented discipline, the initial emphasis was placed on capital acquisitions.

- ☒ True
- ☐ False

51. award:
1.00 point

Inflation is assumed to be a temporary problem that does not affect financial decisions.

- ☐ True
- ☒ False

52. award:
1.00 point

Timing is not a particularly important consideration in financial decisions.

- ☐ True
- ☒ False

53. award:
1.00 point

Institutional investors have had increasing influence over corporations with their ability to vote large blocks of stock and replace poor performing boards of directors.

- ☒ True
- ☐ False

54. award:
1.00 point

Insider trading involves the use of information not available to the general public to make profits from trading in a company's shares.

- ☒ True
- ☐ False

55. award:
1.00 point

Agency theory assumes that corporate managers act to increase the wealth of corporate shareholders.

- ☐ True
- ☒ False

56. award:
1.00 point

During the 1930s, the provincial government assumed a much greater role in regulating the securities industry.

- ☒ True
- ☐ False

57. award:
1.00 point

The higher the profit of a firm, the higher the value the firm is assured of receiving in the market.

- ☐ True
→ ☐ False

58. award:
1.00 point

Social responsibility and profit maximization are synonymous.

- ☐ True
→ ☐ False

59. award:
1.00 point

There is unlimited liability in a general partnership.

- ☐ True
☐ False

60. award:
1.00 point

In the mid 1950s, finance began to change to a more analytical, decision oriented approach.

- ☐ True
☐ False

61. award:
1.00 point

There are some serious problems with the financial goal of maximizing the earnings of the firm.

- ☐ True
☐ False

62. award:
1.00 point

Maximizing the earnings of the firm is the goal of financial management.

- ☐ True
→ ☐ False

63. award:
1.00 point

Because socially desirable goals can impede profitability in many instances, managers should not try to operate under the assumption of wealth maximization.

- ☐ True
→ ☐ False

64. award:
1.00 point

The sole proprietorship represents single-person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs.

- ☐ True
☐ False

65. award:
1.00 point

Profits of sole proprietorships are taxed at corporate tax rates.

- ☐ True
→ ☐ False

66. 1.00 point

The primary market includes the sale of securities by way of initial public offerings.

- ☐ True
☐ False

67. award: 1.00 point

The most common partnership arrangement carries limited liability to the partners.

- ☐ True
→ ☐ False

68. award: 1.00 point

A limited partnership limits the profits partners may receive.

- ☐ True
→ ☐ False

69. award: 1.00 point

In terms of revenues and profits, the corporation is by far the most important form of business organization in Canada.

- ☐ True
☐ False

70. award: 1.00 point

Dividends paid to corporate shareholders have already been taxed once as corporate income.

- ☐ True
☐ False

71. award: 1.00 point

One advantage of the corporate form of organization is that income received by shareholders is not taxable since the corporation already paid taxes on the income distributed.

- ☐ True
→ ☐ False

72. award: 1.00 point

A corporation must have at least 35 shareholders.

- ☐ True
→ ☐ False

73. award: 1.00 point

Profits of a manufacturing corporation are taxed at the same rates as all other corporations.

- ☐ True
→ ☐ False

74. award: 1.00 point

Recently, the emphasis of financial management has been on the relationships between risk and return.

- ☐ True
☐ False