Chapter 01 - Test Bank - Static

Student: ____

1. Working capital management includes making decisions about how much cash and inventory to keep on hand.

TRUE   FALSE

2. A financial manager must be certain about future cash flows when making investment decisions.

TRUE   FALSE

3. Management may be tempted to make decisions that benefit themselves rather than the shareholders they represent. Management compensation, however, can be structured to better align management interests with shareholder interests.

TRUE   FALSE

4. Who makes the financial decisions for a corporation?

A. the shareholders
B. external stakeholders
C. management
D. hedge fund managers

5. Which of the following is part of the investment decision?

A. what dividend the firm should pay
B. what assets the firm should purchase
C. how the firm should fund asset purchases
D. how much cash the firm should hold

6. As a financial manager should you be concerned with how to finance the purchase of a new factory?

A. no
B. yes, but only if we already have sufficient cash
C. no, unless we need to borrow the money
D. yes, we should decide how it is paid for

7. A business created as a distinct legal entity composed of one or more individuals or entities is known as a:

A. sole proprietorship
B. partnership
C. joint venture
D. company

8. The primary goal of financial management is to:

A. maximise current sales
B. maximise the value of shares
C. minimise costs
D. maximise market share

9. The difference between the total value of assets and the total value of liabilities is the:

A. net cash flows
B. net working capital
C. shareholders' equity
D. gross profit

10. A debt that is not due in the coming year is classified as a(n):

A. indirect liability
B. direct liability
C. non-current liability
D. current liability

11. Under sole proprietorship, the owner has ________ for business debts.

A. no responsibility
B. unlimited liability
C. no liability
D. limited personal liability

12. Under a partnership, the partners have ________ for partnership debts.

A. limited liability
B. unlimited liability
C. no liability
D. limited personal liability

13. Forming a company involves preparing a(n):

A. deed
B. agreement
C. constitution
D. ownership agreement

14. Assets are classified as:

A. intangible or non-current
B. current or non-current
C. cash or accounts receivable
D. direct or indirect

15. The concept of 'primary market' refers to the:

A. original sale of securities by governments
B. original sale of securities by companies
C. securities bought and sold after the original sale
D. both original sale of securities by governments and original sale of securities by companies

16. ________ states that in a perfect capital market, it is possible to separate the firm's investment decisions from the owners' consumption decisions.

A. Arrow's impossibility theorem
B. Fisher's separation theorem
C. two period perfect certainty model
D. the utility curves of investors

17. Under the assumptions of the perfect certainty model:

A. a firm's future cash flows are known exactly
B. the market rate of interest is same for all participants
C. both a firm's future cash flows are known exactly, and the market rate of interest is the same for all participants
D. none of the given answers

18. The assumption of rational investors assumes that:

A. all investors are wealth maximisers
B. all investors are utility minimisers
C. all investors are utility maximisers
D. all investors are utility or wealth maximisers

19. Capital structure is:

A. the mix of debt and equity maintained by a firm
B. the mix of short-term debt and assets held by a firm
C. the mix of long-term debt and assets held by a firm
D. the mix of dividends and debt maintained by a firm

20. The process of planning and managing a firm's investment in non-current assets is known as:

A. working capital management
B. financing decision
C. capital budgeting
D. earnings decision

21. Evaluating the size, timing and risk of future cash flows is the essence of:

A. working capital management
B. profit maximisation
C. capital budgeting

D. both profit maximisation and capital budgeting

22. The difference between a firm's current assets and current liabilities is called:

A. accounting profits
B. excess profits
C. net working capital
D. both accounting profits and net working capital

23. The money market is a(n) ________.

A. long-term market
B. auction market
C. short-term market where short-term debt securities are traded
D. none of the given answers

24. The relationship between shareholders and management is called:

A. an agency relationship
B. a proxy relationship
C. a managerial relationship
D. both an agency relationship and an agency problem

25. ________ are financial markets where short-term debt securities are bought and sold.

A. money markets
B. capital markets
C. primary markets
D. secondary markets

26. Which of the following would be considered a current asset on a firm's balance sheet?

A. accounts payable
B. inventory
C. plant and machinery
D. both accounts payable and inventory

27. The possibility of conflict between shareholders and management of the firm is called:

A. corporate breakdown
B. an agency problem
C. management breakdown
D. legal liability

28. Agency costs refer to:

A. the total dividends paid to shareholders over a period of 10 years
B. the total interest paid to bondholders over a period of 10 years
C. both the total dividends paid to shareholders over a period of 10 years, and the total interest paid to bondholders over a period of 10 years
D. the costs of the conflict of interest between shareholders and management

29. A stakeholder is:

A. a proxy vote made at a shareholders meeting
B. a shareholder of a firm
C. a debt-holder of a firm
D. someone other than a shareholder or debt-holder who potentially has a claim on a firm

30. Long-term debt and equity securities are bought and sold in:

A. money markets
B. capital markets
C. primary markets
D. secondary markets

31. Commercial paper or bills are examples of:

A. money market instruments
B. capital market instruments
C. hybrid market instruments
D. long-term debt securities

32. The total market value of a publicly-listed firm's equity is determined by:

A. the firm's financial officer
B. the firm's board of directors
C. the firm's underwriters
D. the investors in the stock market

33. The ________ market provides the means for transferring ownership of corporate securities from one investor to another.

A. dealer
B. auction
C. primary
D. secondary

34. Until October 1987, all stock exchange transactions were conducted using the __________ on the trading floor.

A. dealer market system
B. auction market system
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D. primary market system

35. By law, public offerings of debt and equity to the public must be accompanied by a ________, which must be lodged with ASIC.

A. balance sheet
B. statement of capital structure
C. statement of cash flows
D. prospectus

36. Which of the following is a disadvantage of partnerships?

A. limited life of the business
B. they involve lots of agency problems
C. they are difficult to set up
D. none of the given answers

37. Indirect agency costs include:

A. management buying a new company car that is not required
B. management deciding to fly first class rather than economy class
C. having to pay external auditors
D. lost opportunity due to management not pursuing a value creating investment

38. Underperforming management may be replaced by:

A. a takeover
B. a proxy fight
C. either a takeover or a proxy fight
D. neither a takeover nor a proxy fight

39. Current assets include:

A. cash, inventory, and accounts receivable
B. cash, inventory, and intangibles
C. cash, accounts receivable, and intangibles
D. inventory, accounts receivable, and intangibles

40. Accounting income or earnings:

A. is always higher than cash flow
B. is always lower than cash flow
C. is the same as cash flow
D. can be very different from cash flow

41. Which of the following does working capital management NOT involve?

A. deciding how much inventory to hold
B. deciding whether to reduce the dividend
C. altering the terms of credit sales
D. altering the criteria regarding who to extend sales to

42. The assumptions of the two-period perfect certainty model are:

A. perfect certainty, perfect capital markets, and rational investors
B. perfect uncertainty, imperfect capital markets, and irrational investors
C. perfect certainty, imperfect capital markets, and rational investors
D. perfect certainty, perfect capital markets, and irrational investors

43. In a world with perfect capital markets and perfect certainty, it is:

A. only the financing decision that affects firm value
B. only the dividend decision that affects firm value
C. only the investment decision that affects firm value
D. none of the given answers

44. In a world with perfect capital markets and uncertainty, it is:

A. only the financing decision that affects firm value
B. only the dividend decision that affects firm value
C. only the investment decision that affects firm value
D. none of the given answers

45. According to Clifford W Smith Jr:

A. markets impose costs on companies that engage in ethical behaviour
B. market forces provide incentives for ethical behaviour
C. markets impose costs on companies that engage in unethical behaviour, and market forces provide incentives for ethical behaviour
D. markets do not impose costs on companies that engage in unethical behaviour, and market forces do not provide incentives for ethical behaviour

46. A firm that pays a dividend:

A. should grow more quickly than an identical firm that pays no dividend
B. should grow more slowly than an identical firm that pays no dividend
C. should grow at the same rate as an identical firm that pays no dividend
D. none of the given answers

47. Fisher's separation theorem states that it is possible to separate the investment decisions of the firm from the consumption decisions of the owners.

TRUE FALSE

48. A perfect capital market implies that the borrowing and lending rates are the same.

TRUE FALSE

49. Under the two-period perfect certainty model investors allocate their resources through time according to two criteria.

TRUE FALSE

50. The certainty model is restricted to a single interval of time of specified length.

TRUE FALSE

51. Under the two-period perfect certainty model, both the financing and the investment decisions affect the firm value.

TRUE FALSE

52. Of the three decisions facing the financial manager of the firm, it's only the investment decision that affects firm value.

TRUE FALSE

53. If used correctly, the NPV and IRR rules give the same accept / reject decisions for a project.

TRUE FALSE

54. Arrow's Impossibility Theorem states that when there is an imperfect market there is no longer a unique production decision that would be made by any current owner regardless of the preferences of the owner.

TRUE FALSE

55. When a public offering is underwritten, an underwriter or syndicate contracts to purchase from the firm those securities that remain unsold to the public.

TRUE FALSE

56. The trading floors in the Australian Stock Exchange were closed in October 1990 and all shares are now traded on an automated trading system.

TRUE FALSE

57. A financial manager has to consider the size, timing and risk of future cash flows when making investment decisions.

TRUE FALSE

58. Which of the following is not part of the investment decision?

A. what projects to undertake
B. how to finance the investments
C. what fixed assets to invest in
D. what working capital investments to undertake

59. Under partnership, the partners generally have ________ for business debts.

A. no responsibility
B. unlimited liability

C. no liability
D. limited personal liability

60. Which of the following is a primary market transaction?

A. directors selling shares on the ASX
B. institutional investors trading shares on the ASX
C. securities bought and sold after the original sale
D. a company undertaking an issue of securities to the public

61. Which of the following would be considered a current liability on a firm's balance sheet?

A. notes payable
B. inventory
C. plant and machinery
D. both notes payable and inventory

62. A firm’s choice of capital structure involves:

A. the choice of current and non-current assets
B. the mix of short-term debt and assets held by a firm
C. the mix of debt and equity
D. the mix of dividends and debt maintained by a firm

63. Which of the following is considered to be the most appropriate goal for a corporate firm?

A. maximising sales revenue
B. maximising current share price
C. maximising dividends paid to shareholders
D. minimising cost of operations

64. Of the three decisions facing the financial manager of the firm, it's only the dividend decision that affects firm value.

TRUE FALSE

65. The NPV and IRR rules always lead to conflict in choosing projects.

TRUE FALSE

66. Arrow's Impossibility Theorem states that when there is an imperfect market there is always a unique production decision that would be made by any current owner, regardless of the preferences of the owner.

TRUE FALSE

67. When a public offering of shares is undertaken, there is always a guarantee that all shares on offer are sold to the public.

TRUE FALSE

Chapter 01 - Test Bank - Static Key

1. Working capital management includes making decisions about how much cash and inventory to keep on hand.

TRUE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
Topic: The Balance Sheet and corporate financial decisions

2. A financial manager must be certain about future cash flows when making investment decisions.

FALSE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
Topic: The Balance Sheet and corporate financial decisions

3. Management may be tempted to make decisions that benefit themselves rather than the shareholders they represent. Management compensation, however, can be structured to better align management interests with shareholder interests.

TRUE

AACSB: Ethics
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.
Topic: The agency problem and control of the corporation

4. Who makes the financial decisions for a corporation?

A. the shareholders
B. external stakeholders
C. management
D. hedge fund managers

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.2 Understand the goal of financial management.
Topic: The goal of financial management

5. Which of the following is part of the investment decision?

A. what dividend the firm should pay
B. what assets the firm should purchase
C. how the firm should fund asset purchases
D. how much cash the firm should hold

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium

Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
Topic: The Balance Sheet and corporate financial decisions

6. As a financial manager should you be concerned with how to finance the purchase of a new factory?

A. no
B. yes, but only if we already have sufficient cash
C. no, unless we need to borrow the money
D. yes, we should decide how it is paid for

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
Topic: Corporate finance and the financial manager

7. A business created as a distinct legal entity composed of one or more individuals or entities is known as a:

A. sole proprietorship
B. partnership
C. joint venture
D. company

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: The corporate form of business organisation

8. The primary goal of financial management is to:

A. maximise current sales
B. maximise the value of shares
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AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.2 Understand the goal of financial management.
Topic: The goal of financial management

9. The difference between the total value of assets and the total value of liabilities is the:

A. net cash flows
B. net working capital
C. shareholders' equity
D. gross profit

AACSB: Analytical Thinking
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Difficulty: Easy
Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.

Topic: The Balance Sheet and corporate financial decisions

10. A debt that is not due in the coming year is classified as a(n):

A. indirect liability
B. direct liability
C. non-current liability
D. current liability

AACSB: Communication
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
Topic: The Balance Sheet and corporate financial decisions

11. Under sole proprietorship, the owner has ________ for business debts.

A. no responsibility
B. unlimited liability
C. no liability
D. limited personal liability

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: The corporate form of business organisation

12. Under a partnership, the partners have ________ for partnership debts.

A. limited liability
B. unlimited liability
C. no liability
D. limited personal liability

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: The corporate form of business organisation

13. Forming a company involves preparing a(n):

A. deed
B. agreement
C. constitution
D. ownership agreement

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
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C. cash or accounts receivable
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AACSB: Analytical Thinking
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15. The concept of 'primary market' refers to the:

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B. original sale of securities by companies
C. securities bought and sold after the original sale
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AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: Financial markets and the corporation

16. ________ states that in a perfect capital market, it is possible to separate the firm's investment decisions from the owners' consumption decisions.

A. Arrow's impossibility theorem
B. Fisher's separation theorem
C. two period perfect certainty model
D. the utility curves of investors

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
Topic: The two-period perfect certainty model

17. Under the assumptions of the perfect certainty model:

A. a firm's future cash flows are known exactly
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D. none of the given answers

AACSB: Analytical Thinking
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18. The assumption of rational investors assumes that:

A. all investors are wealth maximisers
B. all investors are utility minimisers

C. all investors are utility maximisers
D. all investors are utility or wealth maximisers

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
Topic: The two-period perfect certainty model

19. Capital structure is:

A. the mix of debt and equity maintained by a firm
B. the mix of short-term debt and assets held by a firm
C. the mix of long-term debt and assets held by a firm
D. the mix of dividends and debt maintained by a firm

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: The Balance Sheet and corporate financial decisions

20. The process of planning and managing a firm's investment in non-current assets is known as:

A. working capital management
B. financing decision
C. capital budgeting
D. earnings decision

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
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21. Evaluating the size, timing and risk of future cash flows is the essence of:

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AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.2 Understand the goal of financial management.
Topic: The Balance Sheet and corporate financial decisions

22. The difference between a firm's current assets and current liabilities is called:

A. accounting profits
B. excess profits
C. net working capital

D. both accounting profits and net working capital

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
Topic: The Balance Sheet and corporate financial decisions

23. The money market is a(n) ________.

A. long-term market
B. auction market
C. short-term market where short-term debt securities are traded
D. none of the given answers

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: Financial markets and the corporation

24. The relationship between shareholders and management is called:

A. an agency relationship
B. a proxy relationship
C. a managerial relationship
D. both an agency relationship and an agency problem

AACSB: Ethics
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.
Topic: The agency problem and control of the corporation

25. ________ are financial markets where short-term debt securities are bought and sold.

A. money markets
B. capital markets
C. primary markets
D. secondary markets

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: Financial markets and the corporation

26. Which of the following would be considered a current asset on a firm's balance sheet?

A. accounts payable
B. inventory
C. plant and machinery
D. both accounts payable and inventory

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
Topic: The Balance Sheet and corporate financial decisions

27. The possibility of conflict between shareholders and management of the firm is called:

A. corporate breakdown
B. an agency problem
C. management breakdown
D. legal liability

AACSB: Ethics
Accessibility: Keyboard Navigation
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Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.
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28. Agency costs refer to:

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AACSB: Analytical Thinking
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Difficulty: Easy
Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.
Topic: The agency problem and control of the corporation

30. Long-term debt and equity securities are bought and sold in:

A. money markets
B. capital markets
C. primary markets
D. secondary markets

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Difficulty: Easy
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: Financial markets and the corporation

31. Commercial paper or bills are examples of:

A. money market instruments
B. capital market instruments
C. hybrid market instruments
D. long-term debt securities

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: Financial markets and the corporation

32. The total market value of a publicly-listed firm's equity is determined by:

A. the firm's financial officer
B. the firm's board of directors
C. the firm's underwriters
D. the investors in the stock market

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.2 Understand the goal of financial management.
Topic: The goal of financial management

33. The ________ market provides the means for transferring ownership of corporate securities from one investor to another.

A. dealer
B. auction
C. primary
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AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
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A. dealer market system
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AACSB: Analytical Thinking
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35. By law, public offerings of debt and equity to the public must be accompanied by a ________, which must be lodged with ASIC.

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AACSB: Analytical Thinking
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A. cash, inventory, and accounts receivable
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C. cash, accounts receivable, and intangibles
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AACSB: Analytical Thinking
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Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
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Topic: The Balance Sheet and corporate financial decisions

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AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 1.2 Understand the goal of financial management.
Topic: The Balance Sheet and corporate financial decisions

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AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Hard
Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
Topic: The two-period perfect certainty model

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B. only the dividend decision that affects firm value

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AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
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AACSB: Analytical Thinking
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Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
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C. markets impose costs on companies that engage in unethical behaviour, and market forces provide incentives for ethical behaviour
D. markets do not impose costs on companies that engage in unethical behaviour, and market forces do not provide incentives for ethical behaviour

AACSB: Ethics
Accessibility: Keyboard Navigation
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Learning Objective: 1.4 Understand the conflicts of interest that can arise between managers and owners.
Topic: The agency problem and control of the corporation

46. A firm that pays a dividend:

A. should grow more quickly than an identical firm that pays no dividend
B. should grow more slowly than an identical firm that pays no dividend
C. should grow at the same rate as an identical firm that pays no dividend
D. none of the given answers

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.2 Understand the goal of financial management.
Topic: The Balance Sheet and corporate financial decisions

47. Fisher's separation theorem states that it is possible to separate the investment decisions of the firm from the consumption decisions of the owners.

TRUE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Difficulty: Easy
Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
Topic: The two-period perfect certainty model

48. A perfect capital market implies that the borrowing and lending rates are the same.

TRUE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
Topic: The two-period perfect certainty model

49. Under the two-period perfect certainty model investors allocate their resources through time according to two criteria.

TRUE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
Topic: The two-period perfect certainty model

50. The certainty model is restricted to a single interval of time of specified length.

FALSE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
Topic: The two-period perfect certainty model

51. Under the two-period perfect certainty model, both the financing and the investment decisions affect the firm value.

FALSE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
Topic: The two-period perfect certainty model

52. Of the three decisions facing the financial manager of the firm, it's only the investment decision that affects firm value.

TRUE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
Topic: The two-period perfect certainty model

53. If used correctly, the NPV and IRR rules give the same accept / reject decisions for a project.

TRUE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.2 Understand the goal of financial management.
Topic: The two-period perfect certainty model

54. Arrow's Impossibility Theorem states that when there is an imperfect market there is no longer a unique production decision that would be made by any current owner regardless of the preferences of the owner.

TRUE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
Topic: The two-period perfect certainty model

55. When a public offering is underwritten, an underwriter or syndicate contracts to purchase from the firm those securities that remain unsold to the public.

TRUE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.2 Understand the goal of financial management.
Topic: The two-period perfect certainty model

56. The trading floors in the Australian Stock Exchange were closed in October 1990 and all shares are now traded on an automated trading system.

TRUE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.2 Understand the goal of financial management.
Topic: Financial markets and the corporation

57. A financial manager has to consider the size, timing and risk of future cash flows when making investment decisions.

TRUE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
Topic: The Balance Sheet and corporate financial decisions

58. Which of the following is not part of the investment decision?

A. what projects to undertake
B. how to finance the investments
C. what fixed assets to invest in
D. what working capital investments to undertake

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
Topic: The Balance Sheet and corporate financial decisions

59. Under partnership, the partners generally have ________ for business debts.

A. no responsibility

B. unlimited liability
C. no liability
D. limited personal liability

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: The corporate form of business organisation

60. Which of the following is a primary market transaction?

A. directors selling shares on the ASX
B. institutional investors trading shares on the ASX
C. securities bought and sold after the original sale
D. a company undertaking an issue of securities to the public

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: Financial markets and the corporation

61. Which of the following would be considered a current liability on a firm's balance sheet?

A. notes payable
B. inventory
C. plant and machinery
D. both notes payable and inventory

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.1 Understand the basic types of financial management decisions and the role of the financial manager.
Topic: The Balance Sheet and corporate financial decisions

62. A firm’s choice of capital structure involves:

A. the choice of current and non-current assets
B. the mix of short-term debt and assets held by a firm
C. the mix of debt and equity
D. the mix of dividends and debt maintained by a firm

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.3 Understand the financial implications of the different forms of business organisation.
Topic: The Balance Sheet and corporate financial decisions

63. Which of the following is considered to be the most appropriate goal for a corporate firm?

A. maximising sales revenue
B. maximising current share price
C. maximising dividends paid to shareholders

D. minimising cost of operations

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.2 Understand the goal of financial management.
Topic: The Balance Sheet and corporate financial decisions

64. Of the three decisions facing the financial manager of the firm, it's only the dividend decision that affects firm value.

FALSE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
Topic: The two-period perfect certainty model

65. The NPV and IRR rules always lead to conflict in choosing projects.

FALSE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.2 Understand the goal of financial management.
Topic: The two-period perfect certainty model

66. Arrow's Impossibility Theorem states that when there is an imperfect market there is always a unique production decision that would be made by any current owner, regardless of the preferences of the owner.

FALSE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Medium
Learning Objective: 1.5 Explain and apply the two-period perfect certainty model.
Topic: The two-period perfect certainty model

67. When a public offering of shares is undertaken, there is always a guarantee that all shares on offer are sold to the public.

FALSE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Difficulty: Easy
Learning Objective: 1.2 Understand the goal of financial management.
Topic: The two-period perfect certainty model

Chapter 01 - Test Bank - Static Summary

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