

Quiz Ch. 9/10

Multiple Choice

Each answer is worth 4 points

1. Financial management includes all of the following functions EXCEPT
 - a) making decisions about the appropriate way to promote products.
 - b) managing the firm's working capital.
 - c) evaluating a firm's long-run investment opportunities.
 - d) evaluating a firm's recent financial performance.
2. Sally Meadows works for Swictek Industries. Her primary responsibilities involve management of the firm's working capital and the analysis of long-term investment opportunities for Swictek. Sally's job is in the area of
 - a) managerial accounting.
 - b) logistics.
 - c) financial management.
 - d) operational budgeting.
3. A high *burn rate* would indicate that the company is
 - a) selling its inventory faster than it can produce it.
 - b) taking in cash faster than it can spend it.
 - c) spending cash faster than it can generate it.
 - d) seeing an unexpected increase in its inventory of finished goods.
4. Net _____ is the difference between a firm's current assets and current liabilities.
 - a) present value
 - b) working capital
 - c) worth
 - d) income
5. _____ consist(s) of short-term unsecured promissory notes issued by financial institutions and other major corporations.
 - a) C-notes
 - b) Money market mutual funds
 - c) T-bills
 - d) Commercial paper
6. _____ are short-term IOUs issued by the U.S. government that mature in 4, 13, and 26 week increments.
 - a) Debentures
 - b) Money market mutual funds
 - c) T-bills
 - d) Treasury bonds
7. An advantage of offering more lenient credit terms is that it helps a firm
 - a) decrease debt.
 - b) increase sales.
 - c) reduce risk.
 - d) speed up the receipt of cash.
8. What group was most influential in Microsoft's \$32 billion dividend declaration in 2004?
 - a) The IRS.
 - b) Stockholders.
 - c) Senior management.
 - d) The national media.
9. Capital _____ is the process a firm uses to evaluate long-term investment proposals.
 - a) accounting
 - b) forecasting
 - c) mapping
 - d) budgeting
10. Denise is 25 years old and has decided to begin saving for retirement by setting aside \$2,500 each year. She expects to earn 6 percent on the funds in her retirement account. Under this scenario, she will have \$413,000 in her retirement account, even though she only made \$100,000 in contributions. The additional \$313,000 is the result of
 - a) accruing.
 - b) discounting.
 - c) compounding.
 - d) factoring.

11. When a firm reinvests some of its net income rather than distributing it all to owners, the result is an increase in the firm's
- dividends.
 - covenants.
 - net liabilities.
 - retained earnings.
12. Lottadoc and Bigbux are two companies that are identical in every respect except that Lottadoc uses only equity financing while Bigbux relies heavily on debt financing. Over the past year, the firms had identical net incomes before interest and taxes were taken into account. If this net income was very high,
- Lottadoc would pay less in taxes than Bigbux.
 - Bigbux would report a higher return on equity than Lottadoc.
 - Bigbux would report a lower return on equity than Lottadoc.
 - Lottadoc would report a lower net income after taxes than Bigbux.
13. _____ represent(s) the basic form of ownership in a corporation.
- Mutual funds
 - Callable bonds
 - Preferred stock
 - Common stock
14. A _____ is long-term debt issued by a corporation or government entity in exchange for funds.
- revolving credit instrument
 - promissory note
 - bond
 - stock certificate
15. A _____ is used to set aside money to buy back some of the bonds in a bond issue each year.
- sinking fund
 - capital fund
 - bond fund
 - mutual fund
16. _____ are bonds that are backed only by the earning capacity and creditworthiness of the firm who issues them.
- Callable bonds
 - Debentures
 - Coupon bonds
 - Junk bonds
17. Reba owns a convertible bond issued by Macrofirm, Inc. The bond has a par value of \$1,000, a conversion ratio of 40, a coupon rate of 6 percent, and will mature in 2019. The market price of Macrofirm's common stock has risen steadily over the past three years and is currently \$35 per share. Reba
- is likely to find it attractive to convert the bond to common stock.
 - should hold the bond until it matures.
 - may be forced to sell her bond back to the company, but if she does so, she will receive a premium above the par value.
 - will be able to redeem the bond as soon as the price of the stock rises above \$40 so that it covers the conversion ratio.
18. Corporation GHI has issued bonds in \$100,000 increments to raise capital for product development efforts. The bonds contain a provision that allows the bondholders to exchange each bond for 25 shares of common stock. Bonds with this type of arrangement are called
- equity bonds.
 - convertible bonds.
 - callable bonds.
 - debentures.
19. In a _____, the issuing firm negotiates terms of a securities offer directly with a small number of investors.
- electronic communications network
 - direct stock purchase plan
 - public offering
 - private placement
20. Investors who want to achieve a _____ tend to invest mainly in bonds and _____.
- large capital gain over the long run; preferred stocks.
 - quick profit; stocks in large corporations that pay regular dividends.

- c) steady income; preferred stocks.
d) voting rights; preferred stocks.
21. Investors who want to generate a steady, predictable income are likely to hold all of the following securities EXCEPT
- a) common stocks of companies with well-established histories of paying dividends.
b) corporate bonds.
c) common stocks in companies with the potential for rapid growth.
d) preferred stocks.
22. Individuals using a value investing strategy search for stocks that
- a) are less risky than most other stocks.
b) are undervalued in the market.
c) have a well-established record of paying steady dividends.
d) have generated high rates of return for at least five years.
23. Harry Oakley knows that the stock market sometimes goes through rough times and that the stocks of poorly managed companies can lose value. But he has noticed that over the long run, the general direction of stock prices has been upward. He is a patient investor who favors holding several different stocks and letting the market take its course. Harry's approach most closely fits the
- a) value investing strategy.
b) investing for income strategy.
c) buy and hold strategy.
d) working capital strategy.
24. The *Wall Street Journal's* dartboard stock challenge showed that
- a) stocks picked by experts performed much better than stocks picked randomly by throwing darts at financial pages.
b) once all factors were taken into account, stocks picked by randomly throwing darts performed almost as well as stocks picked by experts.
c) once all factors were taken into account, stocks picked by throwing darts clearly outperformed the stocks picked by experts by a wide margin.
- d) stocks chosen by throwing darts had a slightly higher average return than stocks chosen by experts. However, the returns were also much less stable, so the risk of loss on stocks picked by darts was also much higher.
25. _____ allow investors to buy and sell only at the end of the day, but _____ can be bought and sold any time of the day.
- a) Common stock; preferred stock
b) Exchange traded funds; mutual funds
c) Mutual funds; exchange traded funds
d) Preferred stock; common stock

