

FE-type Sample Questions for PEEA 6e Chapter 1

Chapter 1

1. The fact that one should not add or subtract money unless it occurs at the same point in time is an illustration of what concept?

- (a) time value of money
- (b) marginal return
- (c) economy of scale
- (d) Pareto principle

Answer: (a)

2. If a set of investment alternatives contains all possible choices that can be made, then the set is said to be which of the following?

- (a) coherent
- (b) collectively exhaustive
- (c) independent
- (d) mutually exclusive

Answer: (b)

3. Which of the following examples does not illustrate a cash flow approach?

- (a) a payroll manager writes a check to pay a shop worker
- (b) a neighbor pays \$0.25 to buy a glass of lemonade at a lemonade stand
- (c) a hungry teenager pays for snacks with a debit card
- (d) a building contractor buys lumber on account at a local lumber yard

Answer: (d)

4. The “discounting” in a discounted cash flow approach requires the use of which of the following?

- (a) an interest rate
- (b) the economic value added
- (c) the gross margin
- (d) the incremental cost

Answer: (a)

5. Risks and returns are generally _____ correlated.

- (a) inversely
- (b) negatively
- (c) not
- (d) positively

Answer: (d)

6. Assuming zero incremental costs for the “do nothing” alternative is generally

- (a) appropriate
- (b) risky
- (c) optimistic
- (d) realistic

Answer: (b)

7. Answering “what if” questions with respect to an economic analysis is an example of which step in the Systematic Economic Analysis Technique?

- (a) identifying the investment alternatives
- (b) defining the planning horizon
- (c) comparing the alternatives
- (d) performing supplementary analysis

Answer: (d)

8. Which of the following is useful in making a final selection when multiple criteria exist?

- (a) four discounted cash flow rules
- (b) seven step systematic analysis technique
- (c) ten principles of engineering economic analysis
- (d) weighted factor comparison method

Answer: (d)

9. Time value of money calculations may not be required in an economic evaluation for all of the following reasons except
- (a) annual cash flows are proportional to the first year cash flow
 - (b) inflation is absent
 - (c) no investment of capital is required
 - (d) no differences in the cash flows of the alternatives after the first year

Answer: (b)

10. If a student's time value of money rate is 30 percent, then the student would be indifferent between \$100 today and how much in one year?
- (a) \$30
 - (b) \$100
 - (c) \$103
 - (d) \$130

Answer: (d)

11. A bottled mango juice drink must contain at least 17.0% mango juice for proper taste. The drink is created by blending unprocessed juice from two orchards. RightRipe Orchard sells unprocessed mango juice that is 12.5% mango juice and 87.5% base liquids. PureBlend Orchard sells unprocessed juice that is 20.0% mango juice and 80.0% base. What percentage of unprocessed juice from each orchard is required to exactly meet the 17.0% specification?
- (a) 40% RightRipe; 60% PureBlend
 - (b) 50% RightRipe; 50% PureBlend
 - (c) 60% RightRipe; 50% PureBlend
 - (d) Can not be determined from the information given

Answer: (a)

12. A printed circuit board is produced by passing through a sequence of three steps. The scrap rates for steps one through three are 5%, 3%, and 3%, respectively. If 10,000 good parts are needed, the number that should be started at step one is closest to which of the following?

- (a) 11,100
- (b) 11,140
- (c) 11,190
- (d) 11,240

Answer: (c)

13. Reconsider the preceding problem assuming that the sequence can be rearranged such that the processing step with the 5% scrap rate occurs last rather than first. Using this redesigned sequence, the number of parts that should be started will

- (a) Increase
- (b) Decrease
- (c) Be unchanged
- (d) Cannot be determined from the information given

Answer: (c)