

Chapter 01

1. Which of the following are **NOT** factors that have made the trend toward globalization mandatory for many businesses?

- a. Lower trade barriers
- b. Demand for high-quality, low-cost products
- c. Increased volatility of exchange rates for foreign currency
- d. Increased development costs
- e. Improvements in transportation and communications.

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Globalization of Business

2. Which of the following is **NOT one** of the most important trends in managerial finance from the 1990s that continued into the twenty-first century?

- a. Regulatory attitude of government
- b. Ongoing adaptation of electronic technology
- c. Focus on corporate liquidity
- d. Continued globalization of business
- e. All of the above

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Managerial Finance

3. Which of the following statements are true?

- a. The value of any investment is based on the cash flows it is expected to generate in the future.
- b. Investors are not generally risk averse.
- c. Uncertain cash flows are preferred to certain cash flows.
- d. All of the above are true.
- e. None of the above are true.

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
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DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Value

4. A basic knowledge of finance will help you with your personal investments by helping you understand
- how to accurately predict changes in the short term interest rates.
 - how to determine the optimal dividend policy for each firm.
 - how to determine which technology is most likely to be accepted by consumers.
 - how to review companies and industries to determine their prospects for future growth and the risk inherent in those companies and industries.
 - how to predict the growth in sales for the firm.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Investments

5. Which of the following is **NOT** one of the several new areas that managerial finance expanded to focus on in the 1980s?

- The dramatic increase in both the use of computers for analysis and the electronic transfer of information.
- The decreased importance of global markets and business operations
- The deregulation of financial institutions and the resulting trend toward large, broadly diversified financial services companies.
- Innovations in the financial products offered to investors
- Inflation and its effects on business decisions

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Managerial Finance

6. How will knowledge in the area of investments help you in your personal life?
- To determine how much risk you are willing to take with your investment portfolio.
 - To evaluate how well your investments are performing.
 - To help you to select investments that always outperform the market.
 - To help you to review companies when determining future growth prospects to include in your investment portfolio.

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e. Answers a, b, and d are correct.

ANSWER: e

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Investments

7. Which of the following factors is not a mandate toward globalization for many U.S. businesses?

- a. Improvements in transportation and shipping have lowered shipping costs worldwide.
- b. Political clout of consumers has tended to erode barriers designed to protect inefficient manufacturing in other countries.
- c. With development costs rising, firms must increase unit sales outside the United States to remain competitive.
- d. Firms must be able to produce where costs are lowest.
- e. All of the above are factors.

ANSWER: e

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Globalization of Business

8. Managerial finance entails making decisions about

- a. Investment portfolios held by individual investors.
- b. The regulation and deregulation of the banking industry.
- c. How businesses acquire and use (invest) funds.
- d. Which corporate stocks and bonds are mispriced in the financial markets.
- e. All of the above.

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Managerial Finance

9. What major factor(s) led to the U.S. economic woes which started in 2007?

- a. U.S. overseas military engagements.

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- b. A decline in real estate values which resulted in increased mortgage defaults and foreclosures and a decline in financial markets.
- c. The European economic crisis.
- d. Inflation and manufacturing outsourcing.
- e. None of the above.

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Evolution of Finance

10. Why is it important for persons in marketing, accounting, production, and other areas in the firm to understand finance?

- a. Funds availability affects the firm's ability to increase inventory, change plant capacity, and so forth.
- b. Financial decisions are based on data provided by other functional areas of the firm; thus, it is in the best interests of such areas to provide the most optimistic information possible so that their projects seem most favorable.
- c. There is a good chance persons in marketing, accounting, production, and other areas will have to work in the finance area someday if they want to move up the corporate ladder.
- d. Payments of salaries and other expenses always pass through the finance area of the firm.
- e. All of the above are correct answers.

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Importance of Finance

11. Which of the following is a correct statement?

- a. One of the tasks associated with managerial finance is the decision of when and how the firm should expand, whether the area of expansion is related to plant and equipment, existing product lines, the production of new product lines, or the purchase of a new information system to replace an obsolete system.
- b. As business becomes more global, U.S. companies will have a competitive advantage over their foreign counterparts because the regulatory environment in the United States is much less restrictive than in most other countries of the world.
- c. The purpose of much of the banking reform that took place in the 1930s was to expand the financial activities banks could undertake so that they could be more competitive internationally.
- d. It wasn't until the past couple of decades that the analytical tools we use today to evaluate investments were developed. Prior to the development of such tools, the concept that earnings and dividends are related to stock

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prices was unknown.

e. All of the statements are correct.

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Miscellaneous

12. Which of the following statements is *not* correct?

- a. Prior to the late 1950s and early 1960s, finance was taught primarily as a descriptive, institutional subject viewed more from the standpoint of an outsider than from that of the management of the firm.
- b. History has shown that the types of investments and methods used to analyze investment opportunities have changed as the attitudes of both investors and regulators have changed.
- c. When managerial finance emerged as a separate field of study in the early 1900s, the emphasis was on evaluation and analysis of investments because the economy was in excellent condition at the time, so most individuals had large sums of funds to invest in corporate securities.
- d. One of the responsibilities of the financial manager is to help determine which assets the firm should acquire and the best way to finance those assets.
- e. Sustainability is a long-run concept that focuses on improving the quality of life of all stakeholders, both current and future.

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Miscellaneous

13. Which of the following is **NOT** a concept that you need to understand to make rational financial decisions?

- a. More value is preferred to less value.
- b. Less risky assets are preferred to riskier assets.
- c. Current cash is more valuable than cash in the future.
- d. Discount rate is a decreasing function of risk.
- e. All of the above are needed.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function

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Time Estimate-a - 5 min.

TOPICS: Financial Management

14. Which of the following is **NOT** an example of a firm becoming more of a "lean thinker" in its operations?
- a. simplifying financial reporting to avoid providing redundant or useless information
 - b. developing products in the most efficient manner
 - c. reducing scrap material being generated in the production process
 - d. all of the above are examples of "lean thinking"
 - e. none of the above are examples of "lean thinking"

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Lean Manufacturing (Finance)

15. Which of the following is consistent with maximizing the value of a firm?
- a. increasing the amount and complexity of financial data reported by the firm
 - b. increasing the riskiness of firm
 - c. spending large amounts of money perquisites for the managers
 - d. following sound sustainable business practices
 - e. None of the above

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Sustainability

16. Most people in the United States have a thorough knowledge of finance as evidenced by their having high annual savings rate and a well-developed retirement plan.
- a. True
 - b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function

Chapter 01

Time Estimate-a - 5 min.

TOPICS: Managerial Perspective

17. The major areas included in the study of finance are financial markets, investments, financial services, and managerial finance.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Financial Management

18. The major areas included in the study of finance are information technology, investments and managerial finance.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Financial Management

19. The study of finance consists of three areas—financial markets, investments, and managerial finance—that are basically independent of each other, because you can be an expert in one area without having knowledge of the other two.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Financial Management

20. Managerial finance refers to analysis and management of one's investment portfolio.

- a. True
- b. False

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ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Managerial Finance

21. In general, the role of the financial manager is to plan for the acquisition and use of funds in order to maximize the value of the firm.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Financial Manager

22. The financial manager interacts jointly with many different individuals and departments within the firm. Forecasting and planning, as well as coordination and control, are two of the major areas of responsibility where this interaction takes place.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Financial Manager

23. The financial manager must execute his or her duties independent of the other activities of the firm in order to properly maximize the value of the firm.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge

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Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Financial Manager

24. There are financial implications in virtually all business decisions, and non-financial executives must understand the financial implications of the decisions they make.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Importance of Finance

25. Throughout the twentieth century, the banking industry has often been the subject of a great deal of regulation, much of which has placed banks at a competitive disadvantage compared with other financial institutions in the United States and other banks throughout the world.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Evolution of Finance

26. A major reason there has been a great deal of deregulation in the banking industry since the 1970s is due to the emergence of nonbank organizations and the need to increase competitiveness of U.S. banks and other financial institutions.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

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TOPICS: Evolution of Finance

27. The history of banking in the United States is one of continuous regulation to ensure the safety of our banking institution. For this reason, little deregulation has taken place.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Evolution of Finance

28. Coordination of the finance function and the marketing function is critical to the success of newly formed companies which must generate enough cash to survive

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Importance of Finance

29. Historically, in the United States, after the country has experienced economic or financial tragedy, cries for new, tougher regulations become abundant, and politicians are generally quick to enact new legislation to take what they think are corrective actions.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Evolution of Finance

30. In the early 1900s, the investments arena was dominated by a small group of very wealthy investors and opulent corporations.

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- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Investments

31. At the beginning of the twentieth century, for the most part, the only investments available to individual investors were corporate stocks and bonds; but, today, there are a significantly greater number of investment choices because investors' demands have changed.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Investments

32. During the 1930s, investment experts suggested that stock value should be determined by computing the present value of the future cash flows associated with the stock.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Investments

33. In the early 1900s the emphasis of managerial finance was on the legal aspects of mergers, the formation of new firms, and the various types of securities firms could issue to raise funds.

- a. True
- b. False

ANSWER: True

POINTS: 1

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DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Managerial Finance

34. During the depression era of the 1930s, the emphasis of managerial finance was developing sophisticated analytical models used to determine the liquidity and value of firms.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Managerial Finance

35. If you pursue a business career in a nonfinance profession you will not be exposed to finance concepts on the job.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Importance of Finance

36. Much of the recent legislation enacted by the government has focused on the regulating of previously unregulated industries such as financial services and utilities.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Evolution of Finance

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37. The three main functions in the investments area are sales, the decisions that firms make concerning their cash flows, and determining the optimal mix of securities for a given investor.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Investments

38. The well-developed financial markets that exist in the United States have allowed us to achieve a higher standard of living than would otherwise be possible.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Financial Markets

39. The finance function is fairly independent of most other corporate functions. Marketing decisions, for example, might affect the firm's need for funds but are not affected by conditions in financial markets or other financing issues.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Moderate

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Importance of Finance

40. To achieve success in the financial services industry, one needs a knowledge of the factors that cause interest rates to rise and fall, the regulations to which financial institutions are subject, and the various types of financial instruments.

- a. True
- b. False

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ANSWER: True

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Investments

41. The electronic revolution has not really caught on in finance, primarily because finance decision making is a localized, private function that a firm does not wish to disclose to outsiders.

a. True

b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Information Technology

42. The average American is knowledgeable about personal finance and tends to manage their retirement needs and debt levels responsibly.

a. True

b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

ACCREDITING STANDARDS: Blooms Taxonomy-5 - Knowledge
Business Program-6 - Reflective Thinking
DISC-FIN-07 - Finance Function
Time Estimate-a - 5 min.

TOPICS: Importance of Finance