Chapter 01 testbank - static

Student: ____

1. Large Australian company stocks such as BHP and Telstra:
A. can only trade on the ASX
B. can trade on the stock exchange of their choosing as long as they qualify for listing
C. trade only in dealer markets
D. are sold to investors as private placement and are held to maturity
E. trade over the counter

2. The person responsible for managing a firm's cash flow, credits and CAPEX (capital expenditure) is called:
A. a broker
B. a stakeholder
C. a chief accountant
D. a controller
E. a treasurer

3. The most important function of a financial market is:
A. to facilitate the flow of funds between lenders and borrowers
B. to provide a market for shares
C. to provide information about an issuing company's financial situation
D. to secure profits for brokers and agents
E. to provide information about shares

4. A primary financial market is:
A. one that involves the sale of existing securities
B. one that offers securities with the highest expected return
C. one that offers the greatest choice of shares and debentures
D. one that offers only securities with the highest historical return
E. one that involves the sale of securities for the first time

5. Secondary markets:
A. allow borrowers to raise long-term funds
B. facilitate capital-raising in the primary market
C. allow borrowers to raise short-term funds
D. do not raise new funds but offer liquidity
E. facilitate all of the given answers

6. The top financial officer in a firm is commonly referred to as the:
A. chief financial officer
B. president of finance
C. controller
D. treasurer
E. finance manager

7. The amount of debt and equity used by a firm to finance its operations is called the firm's:
A. debt ratio
B. working capital ratio
C. capital structure
D. financial position
E. cash position

8. Short-term assets and short-term liabilities are referred to as the firm's:
A. cash flow
B. capital budget
C. capital structure
D. working capital
E. financing mix

9. The management of a firm's cash, inventory, and payables is referred to as:
A. cash-flow forecasting
B. asset management
C. capital management
D. cash budgeting
E. working capital management

10. A business organisation that is similar to a sole proprietorship but has two or more owners is called a:
A. limited liability company
B. corporation
C. dual company
D. partnership
E. joint stock company

11. The legal papers which designate a firm's name, nature of business, and intended life are called the:
A. corporate bylaws
B. articles of incorporation or constitution
C. partnership agreement
D. joint stock company forms
E. proprietary declaration

12. Any situation where a conflict may arise between the firm's owners and its managers is referred to as a(n):
A. organisational problem
B. personnel conflict
C. agency problem
D. control issue
E. compensation issue

13. The primary market refers to:
A. the original sale of securities by the issuer
B. transactions between two institutional shareholders
C. the sale of securities by an individual shareholder
D. the first trade of a firm's securities when the financial markets open in the morning
E. all transactions on the NYSE

14. A negotiated sale of securities by an issuer to a specific buyer is called a(n):
A. public offering
B. secondary placement
C. specialised sale
D. independent placement
E. private placement

15. Over-the-counter markets are __________ markets.
A. dealer
B. franchise
C. private
D. auction
E. physical

16. A securities market with a physical location that is designed to match buyers with sellers is called a(n) ________ market:
A. dealer
B. private
C. auction
D. franchise
E. block sale

17. Which one of the following statements is related to capital budgeting?
A. A firm should monitor the ratio of debt to equity financing which it uses.
B. A firm should monitor the amount of its current assets as compared to its current liabilities.
C. A firm should consider the size, risk, and timing of an asset's cash flows before
D. deciding to purchase that asset.
E. A firm should consider various types of loans offered by various lenders before
F. taking out a loan.
G. A firm should determine the ideal level of inventory that should be kept on hand.

18. Working capital management includes which of the following?
I. controlling the inventory level
II. determining when to pay suppliers
III. deciding how much long-term debt to assume
IV. controlling the amount of cash that is readily available
A. I and II only
B. I and IV only
C. II and III only
D. I, II and IV only
E. II, III and IV only

19. A corporation:
A. can neither sue another party nor be sued
B. may not own property
C. may enter into contracts to borrow funds
D. can issue its own shares but cannot purchase shares in another entity
E. can be formed by an oral agreement amongst the shareholders

20. The primary goal of financial management is to maximise the:
A. current net income
B. net working capital
C. number of shares outstanding
D. market value of the existing stock
E. capital structure

21. Margie opened a used book store and is both the 100 per cent owner and the store's manager. Which type of business entity does Margie own if she is personally liable for all the store's debts?
A. sole proprietorship
B. limited partnership
C. corporation
D. joint stock company
E. general partnership

22. Will and Bill both enjoy sunshine, water, and surfboards. Thus, the two friends decided to create a business together in Sydney renting surfboards, paddle boats, and inflatable devices. Will and Bill will equally share in the decision making and in the profits or losses. Which type of business did they create if they both have full personal liability for the firm's debts?
A. sole proprietorship
B. limited partnership
C. corporation
D. joint stock company
E. general partnership

23. Todd and Cathy created a firm that is a separate legal entity and will share ownership of that firm on a 50/50 basis. Which type of entity did they create if they have no personal liability for the firm's debts?
A. limited partnership
B. corporation
C. sole proprietorship
D. general partnership
E. public company

24. Which of the following individuals commonly use finance in the course of their job?
I. chief financial officers
II. accountants
III. security analysts
IV. strategic managers
A. I and II only
B. III and IV only
C. I and III only
D. I, II and III only
E. I, II III, and IV

25. Which one of the following functions should be assigned to the treasurer rather than the controller?
A. data processing
B. cost accounting
C. tax management
D. cash management
E. financial accounting

26. Capital budgeting includes the evaluation of which of the following?
A. size of future cash flows only
B. size and timing of future cash flows only
C. timing and risk of future cash flows only
D. risk and size of future cash flows only
E. size, timing, and risk of future cash flows

27. Which one of the following is a working capital decision?
A. How should the firm raise additional capital to fund its expansion?
B. What debt-equity ratio is best suited to our firm?
C. What is the cost of debt financing?
D. Which type of debt is best suited to finance our inventory?
E. How much cash should the firm keep in reserve?

28. The daily financial operations of a firm are primarily controlled by managing the:
A. total debt level
B. working capital
C. capital structure
D. capital budget
E. long-term liabilities

29. Which one of the following statements correctly applies to a sole proprietorship?
A. The business entity has an unlimited life.
B. The ownership can easily be transferred to another individual.
C. The owner enjoys limited liability for the firm's debts.
D. Debt financing is easy to arrange in the firm's name.
E. Obtaining additional equity is dependent on the owner's personal finances.

30. Which one of the following applies to a general partnership?
A. The firm's operations must be controlled by a single partner.
B. Any one of the partners can be held solely liable for all of the partnership's debt.
C. The profits of the firm are taxed as a separate entity.
D. Each partner's liability for the firm's debts is limited to each partner's investment in the firm.
E. The profits of a general partnership are taxed the same as those of a corporation.

31. Which one of the following is a capital structure decision?
A. determining the optimal inventory level
B. establishing the preferred debt-equity level
C. selecting new equipment to purchase
D. setting the terms of sale for credit sales
E. determining when suppliers should be paid

32. Working capital management includes which one of the following?
A. deciding which new projects to accept
B. deciding whether to purchase a new machine or fix a current machine
C. determining which customers will be granted credit
D. determining how many new shares of stock should be issued
E. establishing the target debt-equity ratio

33. In a general partnership, each partner is personally liable for:
A. the partnership debts that he or she created
B. his or her proportionate share of all partnership debts regardless of which partner incurred that debt
C. the total debts of the partnership, even if he or she was unaware of those debts
D. the debts of the partnership up to the amount he or she invested in the firm
E. all personal and partnership debts incurred by any partner, even if he or she was unaware of those debts

34. A corporation:
A. is ultimately controlled by its board of directors
B. is a legal entity separate from its owners
C. is prohibited from entering into contractual agreements
D. has its identity defined by its bylaws
E. has its existence regulated by the rules set forth in its charter

35. Which of the following are advantages of the corporate form of organisation?
I. ability to raise large sums of equity capital
II. ease of ownership transfer
III. both profits and dividends are taxed
IV. limited liability for all owners
A. I and II only
B. III and IV only
C. II, III and IV only
D. I, II and IV only
E. I, II, III and IV

36. Which one of the following best matches the primary goal of financial management?
A. increasing the dollar amount of each sale
B. increasing traffic flow within the firm's stores
C. transforming fixed costs into variable costs
D. increasing the firm's liquidity
E. increasing the market value of the firm

37. What is the goal of financial management for a sole proprietorship?
A. Maximise net income given the current resources of the firm.
B. Decrease long-term debt to reduce the risk to the owner.
C. Minimise the tax impact on the proprietor.
D. Maximise the market value of the equity.
E. Minimise the reliance on fixed costs.

38. Which one of the following is most likely to create a situation where an agency conflict could arise?
A. increasing the size of a firm's operations
B. downsizing a firm
C. separating management from ownership
D. decreasing employee turnover
E. reducing both management and non-management salaries

39. Which one of the following is most likely to align management's priorities with shareholders' interests?
A. increasing employee retirement benefits
B. compensating managers with shares that must be held for 3 years before the shares can be sold
C. allowing a manager to decorate his or her own office once he or she has been in that office for a period of 3 years or more
D. increasing the number of paid holidays that long-term employees are entitled to receive
E. allowing employees to retire early with full retirement benefits

40. Which of the following are effective means of aligning management goals with shareholder interests?
I. employee share options
II. threat of a takeover
III. management bonuses tied to performance goals
IV. threat of a proxy fight
A. I and III only
B. II and IV only
C. I, II and III only
D. I, III and IV only
E. I, II, III and IV

41. Financial institutions are:
A. institutions that primarily invest in real estate
B. institutions that primarily deal in financial matters
C. institutions that deal in second-hand equipment
D. institutions that engage in manufacturing
E. None of these

42. The goal of a financial manager should be:-
A. to maximise next year's profit
B. to minimise next year's cost
C. to maximise the value of the existing owners' equity
D. to take no risks with shareholders' investments
E. None of these are appropriate goals

43. Which of the following is an example of the agency problem?
A. Managers always invest in projects that have appropriate returns and that will increase shareholder wealth.
B. Managers resign when they believe they have not always acted in the best interests of shareholders.
C. Managers conduct an acquisition program purely to increase the size of an organisation.
D. Managers do not look for new projects as they want to avoid business risk.
E. Both C and D are examples of the agency problem.

44. Which one of the following situations is most likely to create an agency conflict?
A. compensating a manager based on his or her division's net income
B. giving all employees a bonus if a certain level of efficiency is maintained
C. hiring an independent consultant to study the operating efficiency of the firm
D. rejecting a profitable project to protect employee jobs
E. selling under-performing assets owned by the firm

45. The potential conflict of interest between a firm's owners and its managers is referred to as which type of conflict?
A. organisational
B. structural
C. formation
D. agency
E. territorial

46. Elizabeth is employed as a loans officer for the Commonwealth Bank. Her job falls into which of the following areas of finance?
A. international finance
B. financial institutions
C. corporate finance
D. capital management
E. investments

47. Bruce is a security analyst working for Goldman Sachs JB Were. His job falls into which of the following areas of finance?
A. international finance
B. financial institutions
C. corporate finance
D. capital management
E. investments

48. Which of the following is an example of a secondary market transaction?
A. ANZ bank issues new shares to a large funds manager in a private placement.
B. The Government issues new long term bonds.
C. Mary sells 1000 Qantas shares through her broker.
D. BHP issues new bonds which will mature in ten years.
E. None of these are secondary market transactions.

49. Which of the following is an example of a primary market transaction?
A. ANZ bank issues new shares to a large funds manager in a private placement.
B. The ANZ bank sells 10-year government bonds that have 5 years to maturity.
C. Mary sells 1000 Qantas shares through her broker.
D. BHP issues new bonds which will mature in ten years.
E. Both A and D are primary market transactions.

50. Tim works for a large manufacturing company and is now in charge of all fixed asset purchases. In other words, Tim is in charge of:
A. capital structure management
B. asset allocation
C. risk management
D. capital budgeting
E. working capital management

Chapter 01 testbank - static Key

1. Large Australian company stocks such as BHP and Telstra:
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B. can trade on the stock exchange of their choosing as long as they qualify for listing
C. trade only in dealer markets
D. are sold to investors as private placement and are held to maturity
E. trade over the counter

Difficulty: Hard
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.6 Financial markets and the corporation

2. The person responsible for managing a firm's cash flow, credits and CAPEX (capital expenditure) is called:
A. a broker
B. a stakeholder
C. a chief accountant
D. a controller
E. a treasurer

Difficulty: Easy
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

3. The most important function of a financial market is:
A. to facilitate the flow of funds between lenders and borrowers
B. to provide a market for shares
C. to provide information about an issuing company's financial situation
D. to secure profits for brokers and agents
E. to provide information about shares

Difficulty: Hard
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.6 Financial markets and the corporation

4. A primary financial market is:
A. one that involves the sale of existing securities
B. one that offers securities with the highest expected return
C. one that offers the greatest choice of shares and debentures
D. one that offers only securities with the highest historical return
E. one that involves the sale of securities for the first time

Difficulty: Easy
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.6 Financial markets and the corporation

5. Secondary markets:
A. allow borrowers to raise long-term funds
B. facilitate capital-raising in the primary market
C. allow borrowers to raise short-term funds
D. do not raise new funds but offer liquidity
E. facilitate all of the given answers

Difficulty: Hard
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.6 Financial markets and the corporation

6. The top financial officer in a firm is commonly referred to as the:
A. chief financial officer
B. president of finance
C. controller
D. treasurer
E. finance manager

Difficulty: Easy
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

7. The amount of debt and equity used by a firm to finance its operations is called the firm's:
A. debt ratio
B. working capital ratio
C. capital structure
D. financial position
E. cash position

Difficulty: Easy
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

8. Short-term assets and short-term liabilities are referred to as the firm's:
A. cash flow
B. capital budget
C. capital structure
D. working capital
E. financing mix

Difficulty: Easy
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

9. The management of a firm's cash, inventory, and payables is referred to as:
A. cash-flow forecasting
B. asset management
C. capital management
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E. working capital management

Difficulty: Easy
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

10. A business organisation that is similar to a sole proprietorship but has two or more owners is called a:
A. limited liability company
B. corporation
C. dual company
D. partnership
E. joint stock company

Difficulty: Easy
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.3 Forms of business organisation

11. The legal papers which designate a firm's name, nature of business, and intended life are called the:
A. corporate bylaws
B. articles of incorporation or constitution
C. partnership agreement
D. joint stock company forms
E. proprietary declaration

Difficulty: Medium
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.3 Forms of business organisation

12. Any situation where a conflict may arise between the firm's owners and its managers is referred to as a(n):
A. organisational problem
B. personnel conflict
C. agency problem
D. control issue
E. compensation issue

Difficulty: Easy
Learning Objective: 01-04 Describe the conflicts of interest that can arise between managers and owners.
Section: 1.5 The agency problem and control of the corporation

13. The primary market refers to:
A. the original sale of securities by the issuer
B. transactions between two institutional shareholders
C. the sale of securities by an individual shareholder
D. the first trade of a firm's securities when the financial markets open in the morning
E. all transactions on the NYSE

Difficulty: Easy
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.6 Financial markets and the corporation

14. A negotiated sale of securities by an issuer to a specific buyer is called a(n):
A. public offering
B. secondary placement
C. specialised sale
D. independent placement
E. private placement

Difficulty: Medium
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.6 Financial markets and the corporation

15. Over-the-counter markets are __________ markets.
A. dealer
B. franchise
C. private
D. auction
E. physical

Difficulty: Easy
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.6 Financial markets and the corporation

16. A securities market with a physical location that is designed to match buyers with sellers is called a(n) ________ market:
A. dealer
B. private
C. auction
D. franchise
E. block sale

Difficulty: Easy
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.6 Financial markets and the corporation

17. Which one of the following statements is related to capital budgeting?
A. A firm should monitor the ratio of debt to equity financing which it uses.
B. A firm should monitor the amount of its current assets as compared to its current liabilities.
C. A firm should consider the size, risk, and timing of an asset's cash flows before
D. deciding to purchase that asset.
E. A firm should consider various types of loans offered by various lenders before
F. taking out a loan.
G. A firm should determine the ideal level of inventory that should be kept on hand.

Difficulty: Medium
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

18. Working capital management includes which of the following?
I. controlling the inventory level
II. determining when to pay suppliers
III. deciding how much long-term debt to assume
IV. controlling the amount of cash that is readily available
A. I and II only
B. I and IV only
C. II and III only
D. I, II and IV only
E. II, III and IV only

Difficulty: Medium
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

19. A corporation:
A. can neither sue another party nor be sued
B. may not own property
C. may enter into contracts to borrow funds
D. can issue its own shares but cannot purchase shares in another entity
E. can be formed by an oral agreement amongst the shareholders

Difficulty: Medium
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.3 Forms of business organisation

20. The primary goal of financial management is to maximise the:
A. current net income
B. net working capital
C. number of shares outstanding
D. market value of the existing stock
E. capital structure

Difficulty: Easy
Learning Objective: 01-02 Identify the goal of financial management.
Section: 1.4 The goal of financial management

21. Margie opened a used book store and is both the 100 per cent owner and the store's manager. Which type of business entity does Margie own if she is personally liable for all the store's debts?
A. sole proprietorship
B. limited partnership
C. corporation
D. joint stock company
E. general partnership

Difficulty: Easy
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.3 Forms of business organisation

22. Will and Bill both enjoy sunshine, water, and surfboards. Thus, the two friends decided to create a business together in Sydney renting surfboards, paddle boats, and inflatable devices. Will and Bill will equally share in the decision making and in the profits or losses. Which type of business did they create if they both have full personal liability for the firm's debts?
A. sole proprietorship
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C. corporation
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Difficulty: Easy
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.3 Forms of business organisation

23. Todd and Cathy created a firm that is a separate legal entity and will share ownership of that firm on a 50/50 basis. Which type of entity did they create if they have no personal liability for the firm's debts?
A. limited partnership
B. corporation
C. sole proprietorship
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E. public company

Difficulty: Easy
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
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24. Which of the following individuals commonly use finance in the course of their job?
I. chief financial officers
II. accountants
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IV. strategic managers
A. I and II only
B. III and IV only
C. I and III only
D. I, II and III only
E. I, II III, and IV

Difficulty: Medium
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.1 Finance: a quick look

25. Which one of the following functions should be assigned to the treasurer rather than the controller?
A. data processing
B. cost accounting
C. tax management
D. cash management
E. financial accounting

Difficulty: Easy
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

26. Capital budgeting includes the evaluation of which of the following?
A. size of future cash flows only
B. size and timing of future cash flows only
C. timing and risk of future cash flows only
D. risk and size of future cash flows only
E. size, timing, and risk of future cash flows

Difficulty: Easy
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

27. Which one of the following is a working capital decision?
A. How should the firm raise additional capital to fund its expansion?
B. What debt-equity ratio is best suited to our firm?
C. What is the cost of debt financing?
D. Which type of debt is best suited to finance our inventory?
E. How much cash should the firm keep in reserve?

Difficulty: Medium
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

28. The daily financial operations of a firm are primarily controlled by managing the:
A. total debt level
B. working capital
C. capital structure
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Difficulty: Medium
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

29. Which one of the following statements correctly applies to a sole proprietorship?
A. The business entity has an unlimited life.
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E. Obtaining additional equity is dependent on the owner's personal finances.

Difficulty: Easy
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.3 Forms of business organisation

30. Which one of the following applies to a general partnership?
A. The firm's operations must be controlled by a single partner.
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Difficulty: Hard
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.3 Forms of business organisation

31. Which one of the following is a capital structure decision?
A. determining the optimal inventory level
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Difficulty: Medium
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

32. Working capital management includes which one of the following?
A. deciding which new projects to accept
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D. determining how many new shares of stock should be issued
E. establishing the target debt-equity ratio

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Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
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33. In a general partnership, each partner is personally liable for:
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C. the total debts of the partnership, even if he or she was unaware of those debts
D. the debts of the partnership up to the amount he or she invested in the firm
E. all personal and partnership debts incurred by any partner, even if he or she was unaware of those debts

Difficulty: Medium
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.3 Forms of business organisation

34. A corporation:
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Difficulty: Easy
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Section: 1.3 Forms of business organisation

35. Which of the following are advantages of the corporate form of organisation?
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C. II, III and IV only
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E. I, II, III and IV

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Difficulty: Medium
Learning Objective: 01-02 Identify the goal of financial management.
Section: 1.4 The goal of financial management

37. What is the goal of financial management for a sole proprietorship?
A. Maximise net income given the current resources of the firm.
B. Decrease long-term debt to reduce the risk to the owner.
C. Minimise the tax impact on the proprietor.
D. Maximise the market value of the equity.
E. Minimise the reliance on fixed costs.

Difficulty: Easy
Learning Objective: 01-02 Identify the goal of financial management.
Section: 1.4 The goal of financial management

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A. increasing the size of a firm's operations
B. downsizing a firm
C. separating management from ownership
D. decreasing employee turnover
E. reducing both management and non-management salaries

AACSB: Ethics
Difficulty: Easy
Learning Objective: 01-04 Describe the conflicts of interest that can arise between managers and owners.
Section: 1.5 The agency problem and control of the corporation

39. Which one of the following is most likely to align management's priorities with shareholders' interests?
A. increasing employee retirement benefits
B. compensating managers with shares that must be held for 3 years before the shares can be sold
C. allowing a manager to decorate his or her own office once he or she has been in that office for a period of 3 years or more
D. increasing the number of paid holidays that long-term employees are entitled to receive
E. allowing employees to retire early with full retirement benefits

AACSB: Ethics
Difficulty: Medium
Learning Objective: 01-04 Describe the conflicts of interest that can arise between managers and owners.
Section: 1.5 The agency problem and control of the corporation

40. Which of the following are effective means of aligning management goals with shareholder interests?
I. employee share options
II. threat of a takeover
III. management bonuses tied to performance goals
IV. threat of a proxy fight
A. I and III only
B. II and IV only
C. I, II and III only
D. I, III and IV only
E. I, II, III and IV

AACSB: Ethics
Difficulty: Hard
Learning Objective: 01-04 Describe the conflicts of interest that can arise between managers and owners.
Section: 1.5 The agency problem and control of the corporation

41. Financial institutions are:
A. institutions that primarily invest in real estate
B. institutions that primarily deal in financial matters
C. institutions that deal in second-hand equipment
D. institutions that engage in manufacturing
E. None of these

Difficulty: Easy
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.1 Finance: a quick look

42. The goal of a financial manager should be:-
A. to maximise next year's profit
B. to minimise next year's cost
C. to maximise the value of the existing owners' equity
D. to take no risks with shareholders' investments
E. None of these are appropriate goals

Difficulty: Easy
Learning Objective: 01-02 Identify the goal of financial management.
Section: 1.4 The goal of financial management

43. Which of the following is an example of the agency problem?
A. Managers always invest in projects that have appropriate returns and that will increase shareholder wealth.
B. Managers resign when they believe they have not always acted in the best interests of shareholders.
C. Managers conduct an acquisition program purely to increase the size of an organisation.
D. Managers do not look for new projects as they want to avoid business risk.
E. Both C and D are examples of the agency problem.

AACSB: Ethics
Difficulty: Medium
Learning Objective: 01-04 Describe the conflicts of interest that can arise between managers and owners.
Section: 1.5 The agency problem and control of the corporation

44. Which one of the following situations is most likely to create an agency conflict?
A. compensating a manager based on his or her division's net income
B. giving all employees a bonus if a certain level of efficiency is maintained
C. hiring an independent consultant to study the operating efficiency of the firm
D. rejecting a profitable project to protect employee jobs
E. selling under-performing assets owned by the firm

AACSB: Ethics
Difficulty: Medium
Learning Objective: 01-04 Describe the conflicts of interest that can arise between managers and owners.
Section: 1.5 The agency problem and control of the corporation

45. The potential conflict of interest between a firm's owners and its managers is referred to as which type of conflict?
A. organisational
B. structural
C. formation
D. agency
E. territorial

Difficulty: Easy
Learning Objective: 01-04 Describe the conflicts of interest that can arise between managers and owners.
Section: 1.5 The agency problem and control of the corporation

46. Elizabeth is employed as a loans officer for the Commonwealth Bank. Her job falls into which of the following areas of finance?
A. international finance
B. financial institutions
C. corporate finance
D. capital management
E. investments

Difficulty: Easy
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.1 Finance: a quick look

47. Bruce is a security analyst working for Goldman Sachs JB Were. His job falls into which of the following areas of finance?
A. international finance
B. financial institutions
C. corporate finance
D. capital management
E. investments

Difficulty: Easy
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.1 Finance: a quick look

48. Which of the following is an example of a secondary market transaction?
A. ANZ bank issues new shares to a large funds manager in a private placement.
B. The Government issues new long term bonds.
C. Mary sells 1000 Qantas shares through her broker.
D. BHP issues new bonds which will mature in ten years.
E. None of these are secondary market transactions.

Difficulty: Easy
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.6 Financial markets and the corporation

49. Which of the following is an example of a primary market transaction?
A. ANZ bank issues new shares to a large funds manager in a private placement.
B. The ANZ bank sells 10-year government bonds that have 5 years to maturity.
C. Mary sells 1000 Qantas shares through her broker.
D. BHP issues new bonds which will mature in ten years.
E. Both A and D are primary market transactions.

Difficulty: Easy
Learning Objective: 01-03 Compare the financial implications of the different forms of business organisation.
Section: 1.6 Financial markets and the corporation

50. Tim works for a large manufacturing company and is now in charge of all fixed asset purchases. In other words, Tim is in charge of:
A. capital structure management
B. asset allocation
C. risk management
D. capital budgeting
E. working capital management

Difficulty: Easy
Learning Objective: 01-01 Discuss the basic types of financial management decisions and the role of the financial manager.
Section: 1.2 Business finance and the financial manager

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