***Principles of Managerial Finance***

**The Role of Managerial Finance**

1.1 Define finance and the managerial finance function.

1) A financial analyst is responsible for maintaining and controlling the firm's daily cash balances. Frequently manages the firm's short-term investments and coordinates short-term borrowing and banking relationships.

Answer: FALSE

Topic: Career Opportunities

2) Finance is concerned with the process institutions, markets, and instruments involved in the transfer of money among and between individuals, businesses and government.

Answer: TRUE

Topic: Finance Defined

3) Financial services are concerned with the duties of the financial manager.

Answer: FALSE

Topic: Role of Financial Manager

4) Financial managers actively manage the financial affairs of many types of business-financial and non-financial, private and public, for-profit and not-for-profit.

Answer: TRUE

Topic: Role of Financial Manager

5) The capital expenditures analyst/manager is responsible for the evaluation and recommendation of proposed asset investments and may be involved in the financial aspects of implementation of approved investments.

Answer: TRUE

Topic: Career Opportunities

6) The financial analyst administers the firm's credit policy by analyzing or managing the evaluation of credit applications, extending credit, and monitoring and collecting accounts receivable.

Answer: FALSE

Topic: Managerial Finance Functions

7) In large companies, the project finance manager is responsible for coordinating the assets and liabilities of the employees' pension fund.

Answer: FALSE

Topic: Managerial Finance Functions

8) The corporate controller typically handles the accounting activities, such as tax management, data processing, and cost and financial accounting.

Answer: TRUE

Topic: Career Opportunities

9) Managerial finance is concerned with design and delivery of advice and financial products to individuals, business, and government.

Answer: FALSE

Topic: Managerial Finance Functions

10) The corporate treasurer typically handles the both cost accounting and financial accounting.

Answer: FALSE

Topic: Managerial Finance Functions

11) The corporate treasurer is the officer responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting.

Answer: FALSE

Topic: Managerial Finance Functions

12) The corporate controller is the officer responsible for the firm's financial activities such as financial planning and fund raising, making capital expenditure decisions, and managing cash, credit, the pension fund, and foreign exchange.

Answer: FALSE

Topic: Managerial Finance Functions

13) The corporate treasurer's focus tends to be more external, while the controller's focus is more internal.

Answer: TRUE

Topic: Managerial Finance Functions

14) The part of finance concerned with design and delivery of advice and financial products to individuals, business, and government is called

A) Managerial Finance.

B) Financial Manager.

C) Financial Services.

D) none of the above.

Answer: C

Topic: Career Opportunities

15) Managerial finance

A) involves tasks such as budgeting, financial forecasting, cash management, and funds procurement.

B) involves the design and delivery of advice and financial products.

C) recognizes funds on an accrual basis.

D) devotes the majority of its attention to the collection and presentation of financial data.

Answer: A

Topic: Managerial Finance Functions

16) Finance can be defined as

A) the system of debits and credits.

B) the science of the production, distribution, and consumption of wealth.

C) the art and science of managing money.

D) the art of merchandising products and services.

Answer: C

Topic: Finance Defined

17) Financial service

A) is concerned with the duties of the financial manager.

B) involves the design and delivery of advice and financial products.

C) provides guidelines for the efficient operation of the business.

D) handles accounting activities related to data processing.

Answer: B

Topic: Career Opportunities

18) Career opportunities in financial services include all of the following EXCEPT

A) investments.

B) real estate and insurance.

C) capital expenditures management.

D) personal financial planning.

Answer: C

Topic: Career Opportunities

19) Which of the following is a career opportunity in managerial finance?

A) Investment.

B) Real Estate and Insurance.

C) Capital Expenditures Management.

D) Personal Financial Planning.

Answer: C

Topic: Career Opportunities

20) \_\_\_\_\_\_\_\_ is concerned with the duties of the financial manager in the business firm.

A) Financial Services

B) Financial Manager

C) Managerial Finance

D) None of the above

Answer: C

Topic: Role of Financial Manager

21) The \_\_\_\_\_\_\_\_ is responsible for evaluating and recommending proposed asset investments.

A) Financial Manager

B) Credit Manager

C) Pension Fund Manager

D) Capital Expenditures Manager

Answer: D

Topic: Career Opportunities

22) The treasurer is commonly responsible for

A) taxes.

B) data processing.

C) making capital expenditures.

D) cost accounting.

Answer: C

Topic: Managerial Finance Functions

23) The controller is commonly responsible for

A) managing cash.

B) financial accounting.

C) managing credit activities.

D) financial planning.

Answer: B

Topic: Managerial Finance Functions

24) The officer responsible for the firm's financial activities such as financial planning and fund raising, making capital expenditure decisions, and managing cash, credit, the pension fund, and foreign exchange is

A) treasurer.

B) controller.

C) foreign exchange manager.

D) none of the above.

Answer: A

Topic: Managerial Finance Functions

25) The officer responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting is the

A) treasurer.

B) controller.

C) foreign exchange manager.

D) none of the above.

Answer: B

Topic: Managerial Finance Functions

1.2 Describe the legal forms of business organization.

1) In partnerships, owners have unlimited liability and may have to cover debts of other less financially sound partners.

Answer: TRUE

Topic: Legal Form of Organization

2) In partnerships, a partner can readily transfer his/her wealth to other partners.

Answer: FALSE

Topic: Legal Form of Organization

3) The sole proprietor has unlimited liability; his or her total investment in the business, but not his or her personal assets, can be taken to satisfy creditors.

Answer: FALSE

Topic: Legal Form of Organization

4) In limited partnerships, all partners' liabilities are limited to their investment in the partnership.

Answer: FALSE

Topic: Legal Form of Organization

5) Which of the following legal forms of organization is most expensive to organize?

A) Sole proprietorships.

B) Partnerships.

C) Corporations.

D) Limited partnership.

Answer: C

Topic: Legal Form of Organization

6) Which of the following legal forms of organization's income is NOT taxed under individual income tax rate?

A) Sole proprietorships.

B) Partnerships.

C) Limited partnership.

D) Corporation.

Answer: D

Topic: Legal Form of Organization

7) Under which of the following legal forms of organization, is ownership readily transferable?

A) Sole proprietorships.

B) Partnerships.

C) Limited partnership.

D) Corporation.

Answer: D

Topic: Legal Form of Organization

8) About 75 percent of all business firms are

A) sole proprietorships.

B) partnerships.

C) corporations.

D) S-corporations.

Answer: A

Topic: Legal Form of Organization

9) A major weakness of a partnership is

A) limited liability.

B) difficulty liquidating or transferring ownership.

C) access to capital markets.

D) low organizational costs.

Answer: B

Topic: Legal Form of Organization

10) All of the following are key strengths of a corporation EXCEPT

A) access to capital markets.

B) limited liability.

C) low organization costs.

D) readily transferable ownership.

Answer: C

Topic: Legal Form of Organization

11) Which of the following legal forms of organization is characterized by limited liability?

A) Sole proprietorship.

B) Partnership.

C) Corporation.

D) Professional partnership.

Answer: C

Topic: Legal Form of Organization

12) The dominant form of organization with respect to receipts and net profits is the

A) sole proprietorship.

B) partnership.

C) corporation.

D) S-corporation.

Answer: C

Topic: Legal Form of Organization

13) In a(n) \_\_\_\_\_\_\_\_, owners have limited liability with regard to the business. They are not personally liable for the malpractice of other owners.

A) limited partnership

B) S-corporation

C) partnership

D) limited liability partnership

Answer: D

Topic: Legal Form of Organization

1.3 Describe the goal of the firm, and explain why maximizing the value of the firm is an appropriate goal for a business.

1) High cash flow is generally associated with a higher share price whereas higher risk tends to result in a lower share price.

Answer: TRUE

2) When considering each financial decision alternative or possible action in terms of its impact on the share price of the firm's stock, financial managers should accept only those actions that are expected to increase the firm's profitability.

Answer: FALSE

Topic: Goal of the Firm

AACSB Guidelines: Ethical understanding and reasoning abilities

3) To achieve the goal of profit maximization for each alternative being considered, the financial manager would select the one that is expected to result in the highest monetary return.

Answer: TRUE

Topic: Goal of the Firm

AACSB Guidelines: Ethical understanding and reasoning abilities

4) Dividend payments change directly with changes in earnings per share.

Answer: FALSE

5) The wealth of corporate owners is measured by the share price of the stock.

Answer: TRUE

Topic: Goal of the Firm

6) Risk and the magnitude and timing of cash flows are the key determinants of share price, which represents the wealth of the owners in the firm.

Answer: TRUE

Topic: Goal of the Firm

7) A high earnings per share (EPS) does not necessarily translate into a high stock price.

Answer: TRUE

8) The profit maximization goal ignores the timing of returns, does not directly consider cash flows, and ignores risk.

Answer: TRUE

Topic: Goal of the Firm

9) When considering each financial decision alternative or possible action in terms of its impact on the share price of the firm's stock, financial managers should accept only those actions that are expected to maximize shareholder value.

Answer: TRUE

Topic: Goal of the Firm

AACSB Guidelines: Ethical understanding and reasoning abilities

10) An increase in firm risk tends to result in a higher share price since the stockholder must be compensated for the greater risk.

Answer: FALSE

Topic: Goal of the Firm

11) Stockholders expect to earn higher rates of return on investments of lower risk and lower rates of return on investments of higher risk.

Answer: FALSE

Topic: Goal of the Firm

12) The goal of ethics is to motivate business and market participants to adhere to both the letter and the spirit of laws and regulations in all aspects of business and professional practice.

Answer: TRUE

Topic: The Role of Ethics

Question Status: Previous Edition

AACSB Guidelines: Ethical understanding and reasoning abilities

13) The primary goal of the financial manager is

A) minimizing risk.

B) maximizing profit.

C) maximizing wealth.

D) minimizing return.

Answer: C

Topic: Goal of the Firm

14) Corporate owner's receive realizable return through

A) earnings per share and cash dividends.

B) increase in share price and cash dividends.

C) increase in share price and earnings per share.

D) profit and earnings per share.

Answer: B

Topic: Goal of the Firm

15) The wealth of the owners of a corporation is represented by

A) profits.

B) earnings per share.

C) share value.

D) cash flow.

Answer: C

Topic: Goal of the Firm

16) Wealth maximization as the goal of the firm implies enhancing the wealth of

A) the Board of Directors.

B) the firm's employees.

C) the federal government.

D) the firm's stockholders.

Answer: D

Topic: Goal of the Firm

17) The goal of profit maximization would result in priority for

A) cash flows available to stockholders.

B) risk of the investment.

C) earnings per share.

D) timing of the returns.

Answer: C

Topic: Goal of the Firm

18) Profit maximization as a goal is not ideal because it does NOT directly consider

A) risk and cash flow.

B) cash flow and stock price.

C) risk and EPS.

D) EPS and stock price.

Answer: A

Topic: Goal of the Firm

19) Profit maximization as the goal of the firm is not ideal because

A) profits are only accounting measures.

B) cash flows are more representative of financial strength.

C) profit maximization does not consider risk.

D) profits today are less desirable than profits earned in future years.

Answer: C

Topic: Goal of the Firm

20) Profit maximization fails because it ignores all EXCEPT

A) the timing of returns.

B) earnings per share.

C) cash flows available to stockholders.

D) risk.

Answer: B

Topic: Goal of the Firm

21) The key variables in the owner wealth maximization process are

A) earnings per share and risk.

B) cash flows and risk.

C) earnings per share and share price.

D) profits and risk.

Answer: B

Topic: Goal of the Firm

22) Cash flow and risk are the key determinants in share price. Increased cash flow results in \_\_\_\_\_\_\_\_, other things remaining the same.

A) a lower share price

B) a higher share price

C) an unchanged share price

D) an undetermined share price

Answer: B

Topic: Goal of the Firm

23) Cash flow and risk are the key determinants in share price. Increased risk, other things remaining the same, results in

A) a lower share price.

B) a higher share price.

C) an unchanged share price.

D) an undetermined share price.

Answer: A

Topic: Goal of the Firm

24) Financial managers evaluating decision alternatives or potential actions must consider

A) only risk.

B) only return.

C) both risk and return.

D) risk, return, and the impact on share price.

Answer: D

Topic: Goal of the Firm

25) An ethics program is expected to have a \_\_\_\_\_\_\_\_ impact on the firm's share price.

A) positive

B) negative

C) no impact

D) undetermined

Answer: A

Topic: Role of Ethics

AACSB Guidelines: Ethical understanding and reasoning abilities

26) Higher cash flow and greater risk

A) have no effect on share price.

B) have an inverse effect on share price.

C) adversely affect share price.

D) have the same effect on share price.

Answer: B

Topic: Goal of the Firm

27) As the risk of a stock investment increases, investors'

A) return will increase.

B) return will decrease.

C) required rate of return will decrease.

D) required rate of return will increase.

Answer: D

Topic: Goal of the Firm

28) If Steve Jobs, the CEO of Apple, were to pass away, what do you think would happen to price of Apple's stock?

A) It would decrease because of the perceived increased risk because of lack of near-term leadership.

B) It would increase because of the perceived increased risk because of lack of near-term leadership.

C) It would decrease because of the perceived decreased risk because of lack of near-term leadership.

D) It would increase because of the perceived decreased risk because of lack of near-term leadership.

Answer: A

Topic: Goal of the Firm

Question Status: New

29) All of the following as considered stakeholders EXCEPT

A) consumers

B) suppliers

C) employees

D) competitors

Answer: D

Topic: Goal of the Firm

Question Status: New

30) A financial manager must choose between four alternative Assets: 1, 2, 3, and 4. Each asset costs $35,000 and is expected to provide earnings over a three-year period as described below.



Based on the profit maximization goal, the financial manager would choose

A) Asset 1.

B) Asset 2.

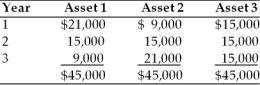
C) Asset 3.

D) Asset 4.

Answer: B

Topic: Goal of the Firm

31) A financial manager must choose between three alternative investments. Each asset is expected to provide earnings over a three-year period as described below. Based on the wealth maximization goal, the financial manager would



A) choose Asset 1.

B) choose Asset 2.

C) choose Asset 3.

D) be indifferent between Asset 1 and Asset 2.

Answer: A

Topic: Goal of the Firm

32) A more recent issue that is causing major problems in the business community is

A) the privatization of ownership.

B) short-term versus long-term financial goals of management.

C) ethical problems.

D) environmental concerns.

Answer: C

Topic: Role of Ethics

AACSB Guidelines: Ethical understanding and reasoning abilities

33) An effective ethics program can have all of the following positive benefits, EXCEPT

A) reduce potential litigation and judgment costs.

B) maintain a positive corporate image and build shareholder confidence.

C) gain the loyalty, commitment, and respect of the firm's stakeholders.

D) making sure violations are penalized, while at the same time not subjecting the employee to publicity.

Answer: D

Topic: Role of Ethics

AACSB Guidelines: Ethical understanding and reasoning abilities

34) Corporate ethics policies typically apply to \_\_\_\_\_\_\_\_ in dealing with \_\_\_\_\_\_\_\_.

A) employee actions; customers and creditors

B) employee actions; customers, vendors, and regulators

C) management actions; all corporate constituents

D) employee actions; all corporate constituents

Answer: D

Topic: Role of Ethics

AACSB Guidelines: Ethical understanding and reasoning abilities

35) An effective ethics program can

A) weakened corporate value.

B) had no effect on a corporation's value

C) enhance a corporation's value.

D) be thought of as unimportant to corporate owners.

Answer: C

Topic: Role of Ethics

AACSB Guidelines: Ethical understanding and reasoning abilities

36) The implementation of a pro-active ethics program is expected to result in

A) a positive corporate image and increased respect, but is not expected to affect cash flows.

B) an increased share price resulting from a decrease in risk, but is not expected to affect cash flows.

C) a positive corporate image and increased respect, but is not expected to affect share price.

D) a positive corporate image and increased respect, a reduction in risk, and enhanced cash flow resulting in an increase in share price.

Answer: D

Topic: Role of Ethics

AACSB Guidelines: Ethical understanding and reasoning abilities

1.4 Describe how the managerial finance function is related to economics and accounting.

1) Marginal cost-benefit analysis states that financial decisions should be made and actions taken only when added benefits exceed added costs.

Answer: TRUE

Topic: Economic Concepts

2) The financial manager places primary emphasis on cash flows, the inflow and outflow of cash.

Answer: TRUE

3) The accrual method recognizes revenue at the point of sale and recognizes expenses when incurred.

Answer: TRUE

Topic: Accounting Concepts

4) The accountant evaluates financial statements, develops additional data, and makes decisions based on his or her assessment of the associated returns and risks.

Answer: FALSE

Topic: Accounting Concepts

5) The financial manager prepares financial statements that recognize revenue at the point of sale and expenses when incurred.

Answer: FALSE

Topic: Role of Financial Manager

6) Using certain standardized and generally accepted principles, the accountant prepares financial statements that recognize revenue at the point of sale and expenses when incurred.

Answer: TRUE

Topic: Accounting Concepts

7) The financial manager must look beyond financial statements to obtain insight into developing or existing problems since the accrual accounting data do not fully describe the circumstances of a firm.

Answer: TRUE

Topic: Role of Financial Manager

8) The accountant's primary function is

A) evaluating the financial statements.

B) making decisions based on financial data.

C) the collection and presentation of financial data.

D) planning cash flows.

Answer: C

Topic: Accounting Concepts

9) The accountant recognizes revenues and expenses on

A) a cash basis.

B) a revenue basis.

C) an accrual basis.

D) an expense basis.

Answer: C

Topic: Accounting Concepts

10) The financial manager recognizes revenues and expenses utilizing

A) the accrual method.

B) the actual inflows and outflows of cash.

C) the standardized, generally accepted, accounting principles.

D) the revenue method.

Answer: B

Topic: Role of Financial Manager

11) The financial manager is interested in the cash inflows and outflows of the firm, rather than the accounting data, in order to ensure

A) profitability.

B) the ability to pay dividends.

C) the ability to acquire new assets.

D) solvency.

Answer: D

Topic: Role of Financial Manager

12) The accountant may be responsible for any of the following EXCEPT

A) processing purchase orders and invoices.

B) ensuring accounts payable are paid on time.

C) preparing the monthly income statement.

D) analyzing the mix of current to fixed assets.

Answer: D

Topic: Accounting Concepts

13) Economic theories that the financial manager must be able to utilize for efficient business operations, include

A) supply-and-demand analysis.

B) marginal analysis.

C) profit-maximizing strategies.

D) price theory.

E) all of the above.

Answer: E

Topic: Economic Concepts

14) The primary economic principle used in managerial finance is

A) supply and demand.

B) the liquidity trap.

C) the crowding out effect.

D) marginal cost-benefit analysis.

Answer: D

Topic: Economic Concepts

15) Johnson, Inc. has just ended the calendar year making a sale in the amount of $10,000 of merchandise purchased during the year at a total cost of $7,000. Although the firm paid in full for the merchandise during the year, it has yet to collect at year end from the customer. The net profit and cash flow from this sale for the year are

A) $3,000 and $10,000, respectively.

B) $3,000 and -$7,000, respectively.

C) $7,000 and -$3,000, respectively.

D) $3,000 and $7,000, respectively.

Answer: B

16) A firm has just ended its calendar year making a sale in the amount of $150,000 of merchandise purchased during the year at a total cost of $112,500. Although the firm paid in full for the merchandise during the year, it has yet to collect at year end from the customer. The net profit and cash flow from this sale for the year are

A) $0 and $150,000, respectively.

B) $37,500 and -$150,000, respectively.

C) $37,500 and -$112,500, respectively.

D) $150,000 and $112,500, respectively.

Answer: C

17) The primary emphasis of the financial manager is the use of

A) accrued earnings.

B) cash flow.

C) organization charts.

D) profit incentives.

Answer: B

Topic: Role of Financial Manager

18) By concentrating on cash flows within the firm the financial manager should be able to

A) prepare tax returns.

B) speak authoritatively to stockholders.

C) avoid insolvency.

D) control expenses.

Answer: C

Topic: Role of Financial Manager

19) Marginal analysis states that financial decisions should be made and actions taken only when

A) demand equals supply.

B) benefits equal costs.

C) added benefits exceed added costs.

D) added benefits are greater than zero.

Answer: C

Topic: Economic Concepts

20) A firm has just ended its calendar year making a sale in the amount of $200,000 of merchandise purchased during the year at a total cost of $150,500. Although the firm paid in full for the merchandise during the year, it has yet to collect at year end from the customer. The possible problem this firm may face is

A) low profitability.

B) lack of cash flow.

C) inability to receive credit.

D) high leverage.

Answer: B

21) The amount earned during the accounting period on each outstanding share of common stock is called

A) common stock dividend.

B) earnings per share.

C) net profits after taxes.

D) net income.

Answer: B

Topic: Accounting Concepts

1.5 Identify the primary activities of the financial manager.

1) Financial analysis and planning is concerned with analyzing the mix of assets and liabilities.

Answer: FALSE

Topic: Managerial Finance Functions

2) Financing decisions deal with the left-hand side of the firm's balance sheet and involve the most appropriate mix of current and fixed assets.

Answer: FALSE

Topic: Managerial Finance Functions

3) Managerial finance

A) involves tasks such as budgeting, financial forecasting, cash management, and funds procurement.

B) involves the design and delivery of advice and financial products.

C) recognizes funds on an accrual basis.

D) devotes the majority of its attention to the collection and presentation of financial data.

Answer: A

Topic: Managerial Finance Functions

4) The key role of the financial manager is

A) decision making.

B) the presentation of financial statements.

C) the preparation of data for future evaluation.

D) the collection of financial data.

Answer: A

Topic: Role of Financial Manager

5) The key activities of the financial manager include all of the following EXCEPT

A) making financing decisions.

B) financial analysis and planning.

C) managing financial accounting.

D) making investment decisions.

Answer: C

Topic: Role of Financial Manager

6) Included in the primary activities of the financial manager are

A) financial analysis and planning.

B) making investment decisions.

C) making financing decisions.

D) analyzing and planning cash flows.

E) all of the above.

Answer: E

Topic: Role of Financial Manager

7) The financial manager may be responsible for any of the following EXCEPT

A) monitoring of quarterly tax payments.

B) analyzing budget and performance reports.

C) determining whether to accept or reject a capital asset acquisition.

D) analyzing the effects of more debt on the firm's capital structure.

Answer: A

Topic: Role of Financial Manager

8) Making investment decisions includes all of the following EXCEPT

A) inventory.

B) fixed assets.

C) accounts receivable.

D) notes payable.

Answer: D

Topic: Managerial Finance Functions

9) Making financing decisions includes all of the following EXCEPT

A) determining the appropriate mix of short-term and long-term financing.

B) deciding which individual short-term sources are best at a given point in time.

C) analyzing quarterly budget and performance reports.

D) deciding which individual long-term sources are best at a given point in time.

Answer: C

Topic: Managerial Finance Functions

10) Managing the firm's assets includes all of the following EXCEPT

A) inventory.

B) fixed assets.

C) accounts receivable.

D) notes payable.

Answer: D

Topic: Managerial Finance Functions

11) Managing the firm's liabilities includes all of the following EXCEPT

A) accruals.

B) notes payable.

C) cash.

D) accounts payable.

Answer: C

Topic: Managerial Finance Functions

12) Financial analysis and planning involve all of the following EXCEPT

A) transforming data into a form that can be used to monitor the firm's financial position.

B) evaluating the need for increased or reduced productive capacity.

C) controlling the data processing activities.

D) determining the additional financing needs.

Answer: C

Topic: Managerial Finance Functions

13) The financial manager's investment decisions determine

A) both the mix and the type of assets found on the firm's balance sheet.

B) both the mix and the type of liabilities found on the firm's balance sheet.

C) both the mix and the type of assets and liabilities found on the firm's balance sheet.

D) both the mix and the type of short-term and long-term financing.

Answer: A

Topic: Managerial Finance Functions

14) In planning and managing the requirements of the firm, the financial manager is concerned with

A) the mix and type of assets, but not the type of financing utilized.

B) the type of financing utilized, but not the mix and type of assets.

C) the acquisition of fixed assets, allowing someone else to plan the level of current assets required.

D) the mix and type of assets, the type of financing utilized, and analysis in order to monitor the financial condition.

Answer: D

Topic: Managerial Finance Functions

15) The financial manager's financing decisions determine

A) both the mix and the type of assets found on the firm's balance sheet.

B) the most appropriate mix of short-term and long-term financing.

C) both the mix and the type of assets and liabilities found on the firm's balance sheet.

D) the proportion of the firm's earnings to be paid as dividend.

Answer: B

Topic: Managerial Finance Functions

1.6 Describe the nature of the principle-agent relationship between owners and managers of a corporation, and explain how various corporate governance mechanisms attempt to manage agency problems.

1) The likelihood that managers may place personal goals ahead of corporate goals is called the agency problem.

Answer: TRUE

AACSB Guidelines: Ethical understanding and reasoning abilities

2) Agents of corporate owners are themselves owners of the firm and have been elected by all the corporate owners to represent them in decision-making and management of the firm.

Answer: FALSE

3) The agency problem occurs when the firm selects an ineffective marketing advertising and PR firm to represent them.

Answer: FALSE

4) Most recent studies on executive compensation have failed to find a strong relationship between CEO compensation and share price.

Answer: TRUE

5) The major purpose of the Sarbanes-Oxley Act of 2002 was to place caps on the compensation that could be paid to corporate executives.

Answer: FALSE

Topic: Corporate Governance

6) The board of directors is responsible for managing day-to-day operations and carrying out the policies established by the chief executive officer.

Answer: FALSE

Topic: Corporate Governance

7) The president or chief executive officer is elected by the firm's stockholders and has ultimate authority to guide corporate affairs and make general policy.

Answer: FALSE

Topic: Corporate Governance

8) Agency costs include all of the following EXCEPT

A) management reports to stockholders.

B) performance incentives paid to managers.

C) the cost of monitoring management behavior.

D) purchasing insurance against management misconduct.

Answer: A

9) One way often used to insure that management decisions are in the best interest of the stockholders is to

A) threaten to fire managers who are seen as not performing adequately.

B) remove management's perquisites.

C) tie management compensation to the performance of the company's common stock price.

D) tie management compensation to the level of earnings per share.

Answer: C

10) Among solutions to the agency problem in publicly-held corporations are all of the following EXCEPT

A) stock options.

B) performance shares.

C) cash bonuses tied to goal achievement.

D) bonuses based on short-term results.

Answer: D

11) Emerging trends resulting from the agency problem are all of the following EXCEPT

A) large private corporations.

B) restructuring through leveraged buyouts.

C) management by active investors.

D) prohibiting managers from maintaining an ownership interest.

Answer: D

12) The board of directors is typically responsible for

A) developing strategic goals and plans.

B) hiring and firing.

C) both A and B.

D) neither A nor B.

Answer: C

Topic: Corporate Governance

13) The Sarbanes-Oxley Act of 2002 was passed in response to

A) insider trading activities.

B) false disclosures in financial reporting.

C) the decline in technology stocks.

D) all of the above.

Answer: B

Topic: Corporate Governance

14) The Sarbanes-Oxley Act of 2002 did all of the following EXCEPT

A) tighten audit regulations and controls.

B) toughen penalties against overcompensated executives.

C) toughen penalties against executives who commit corporate fraud.

D) All of the above are true.

Answer: B

Topic: Corporate Governance

15) If a company's managers are NOT owners of the company, then they are

A) dealers.

B) agents.

C) outsiders.

D) brokers.

Answer: B

16) The conflict between the goals of a firm's owners and the goals of its non-owner managers is

A) the agency problem.

B) incompatibility.

C) serious only when profits decline.

D) of little importance in most large U.S. firms.

Answer: A

17) The agency problem may result from a manager's concerns about any of the following EXCEPT

A) job security.

B) personal wealth.

C) corporate goals.

D) company-provided perquisites.

Answer: C

18) Agency costs include all of the following EXCEPT

A) bonding and structuring expenses.

B) cost of goods sold.

C) monitoring expenditures.

D) opportunity costs.

Answer: B

19) The true owner(s) of the corporation is (are) the

A) board of directors.

B) chief executive officer.

C) stockholders.

D) creditors.

Answer: C

Topic: Corporate Governance

20) The \_\_\_\_\_\_\_\_ has/have the ultimate responsibility in guiding corporate affairs and carrying out policies.

A) board of directors

B) chief executive officer

C) stockholders

D) creditors

Answer: A

Topic: Corporate Governance

21) The responsibility for managing day-to-day operations and carrying out corporate policies belongs to the

A) board of directors.

B) chief executive officer.

C) stockholders.

D) creditors.

Answer: B

Topic: Corporate Governance

22) In a corporation, the members of the board of directors are elected by the

A) chief executive officer.

B) creditors.

C) stockholders.

D) employees.

Answer: C

Topic: Corporate Governance

23) Institutional investors are professional investors who work on behalf of the federal government to ensure fairness in the financial markets.

Answer: FALSE

Topic: Financial Institutions and Markets