

Student: \_\_\_\_\_

1. A business created as a distinct legal entity composed of one or more individuals or entities is known as a:
  - A. sole proprietorship
  - B. partnership
  - C. joint venture
  - D. company
2. The primary goal of financial management is to:
  - A. maximise current sales
  - B. maximise the value of shares
  - C. minimise costs
  - D. avoid bankruptcy
3. The difference between the total value of assets and the total value of liabilities is the \_\_\_\_\_.
  - A. net cash flows
  - B. net working capital
  - C. shareholders' equity
  - D. operating profit
4. A debt that is not due in the coming year is classified as a(n) \_\_\_\_\_.
  - A. indirect liability
  - B. direct liability
  - C. non-current liability
  - D. current liability
5. Under sole proprietorship, the owner has \_\_\_\_\_ for business debts.
  - A. limited liability
  - B. unlimited liability
  - C. no liability
  - D. limited personal liability
6. Under a partnership, the partners have \_\_\_\_\_ liability for partnership debts.
  - A. limited liability
  - B. unlimited liability
  - C. no liability
  - D. limited personal liability
7. Forming a company involves preparing a(n):
  - A. deed
  - B. agreement
  - C. constitution
  - D. ownership agreement
8. Assets are classified as \_\_\_\_\_.
  - A. intangible or non-current
  - B. current or non-current
  - C. cash or accounts receivable
  - D. direct or indirect

9. The term 'primary market' refers to the:
- A. original sale of securities by governments
  - B. original sale of securities by companies
  - C. securities bought and sold after the original sale
  - D. both original sale of securities by governments and original sale of securities by companies
10. \_\_\_\_\_ states that in a perfect capital market, it is possible to separate the firm's investment decisions from the owners' consumption decisions.
- A. Arrow's impossibility theorem
  - B. Fisher's separation theorem
  - C. two period perfect certainty model
  - D. the utility curves of investors
11. Under the assumption of perfect certainty:
- A. a firm's future cash flows are known exactly
  - B. the market rate of interest is same for all participants
  - C. both a firm's future cash flows are known exactly, and the market rate of interest is the same for all participants
  - D. none of the given answers
12. Under the assumption of rational investors:
- A. all investors are wealth maximisers
  - B. all investors are utility minimisers
  - C. all investors are utility maximisers
  - D. all investors are utility or wealth maximisers
13. Capital structure is:
- A. the mix of debt and equity maintained by a firm
  - B. the mix of short-term debt and assets held by a firm
  - C. the mix of long-term debt and assets held by a firm
  - D. the mix of dividends and debt maintained by a firm
14. The process of planning and managing a firm's investment in non-current assets is known as:
- A. working capital management
  - B. financing decision
  - C. capital budgeting
  - D. earnings decision
15. Evaluation of size, timing and risk of future cash flows is the essence of:
- A. working capital management
  - B. profit maximisation
  - C. capital budgeting
  - D. both profit maximisation and capital budgeting
16. The difference between a firm's current assets and current liabilities is called:
- A. accounting profits
  - B. excess profits
  - C. net working capital
  - D. both accounting profits and net working capital
17. The money market is a(n) \_\_\_\_\_.
- A. long-term market
  - B. auction market
  - C. dealer market
  - D. none of the given answers

18. The relationship between shareholders and management is called:
- A. an agency relationship
  - B. a proxy relationship
  - C. a managerial relationship
  - D. both an agency relationship and an agency problem
19. \_\_\_\_\_ are financial markets where short-term debt securities are bought and sold.
- A. money markets
  - B. capital markets
  - C. primary markets
  - D. secondary markets
20. Which of the following would be considered a current asset on a firm's balance sheet?
- A. accounts receivable
  - B. inventory
  - C. plant and machinery
  - D. both accounts receivable and inventory
21. The possibility of conflict between shareholders and management of the firm is called:
- A. corporate breakdown
  - B. an agency problem
  - C. management breakdown
  - D. legal liability
22. Agency costs refer to:
- A. the total dividends paid to shareholders over a period of 10 years
  - B. the total interest paid to bondholders over a period of 10 years
  - C. both the total dividends paid to shareholders over a period of 10 years, and the total interest paid to bondholders over a period of 10 years
  - D. the costs of the conflict of interest between shareholders and management
23. A stakeholder is:
- A. a proxy vote made at a shareholders meeting
  - B. a shareholder of a firm
  - C. a debt-holder of a firm
  - D. someone other than a shareholder or debt-holder who potentially has a claim on a firm
24. Long-term debt and equity securities are bought and sold in:
- A. money markets
  - B. capital markets
  - C. primary markets
  - D. secondary markets
  - E. auction markets
25. Commercial paper or bills are examples of:
- A. money market instruments
  - B. capital market instruments
  - C. secondary market instruments
  - D. long-term debt securities
26. The total market value of a publicly-listed firm's equity is determined by:
- A. the firm's financial officer
  - B. the firm's board of directors
  - C. the firm's underwriters
  - D. the investors in the stock market

27. The \_\_\_\_\_ market provides the means for transferring ownership of corporate securities.
- A. dealer
  - B. auction
  - C. primary
  - D. secondary
28. Until October 1987, all stock exchange transactions were conducted using the:
- A. dealer market system
  - B. auction market system
  - C. open outcry system
  - D. primary market system
29. By law, public offerings of debt and equity must be accompanied by a \_\_\_\_\_, which must be lodged with ASIC.
- A. balance sheet
  - B. statement of capital structure
  - C. statement of cash flows
  - D. prospectus
30. Which of the following is a disadvantage of partnerships?
- A. limited life of the business
  - B. they involve lots of agency problems
  - C. they are difficult to set up
  - D. none of the given answers
31. Indirect agency costs include:
- A. management buying a new company car that is not required
  - B. management deciding to fly first class rather than economy class
  - C. having to pay external auditors
  - D. lost opportunity due to management not pursuing a value creating investment
32. Underperforming management can be replaced by:
- A. a takeover
  - B. a proxy fight
  - C. either a takeover or a proxy fight
  - D. neither a takeover nor a proxy fight
33. Current assets include:
- A. cash, inventory, and accounts receivable
  - B. cash, inventory, and intangibles
  - C. cash, accounts receivable, and intangibles
  - D. inventory, accounts receivable, and intangibles
34. Accounting income or earnings:
- A. is always higher than cash flow
  - B. is always lower than cash flow
  - C. is the same as cash flow
  - D. can be very different from cash flow
35. Which of the following does working capital management NOT involve?
- A. deciding how much inventory to hold
  - B. deciding whether to increase the dividend
  - C. altering the terms of credit sales
  - D. altering the criteria regarding who to extend sales to

36. The assumptions of the two-period perfect certainty model are:
- perfect certainty, perfect capital markets, and rational investors
  - perfect uncertainty, perfect capital markets, and rational investors
  - perfect certainty, imperfect capital markets, and rational investors
  - perfect certainty, perfect capital markets, and irrational investors
37. In a world with perfect capital markets and perfect certainty, it is:
- only the financing decision that affects firm value
  - only the dividend decision that affects firm value
  - only the investment decision that affects firm value
  - none of the given answers
38. In a world with perfect capital markets and uncertainty, it is:
- only the financing decision that affects firm value
  - only the dividend decision that affects firm value
  - only the investment decision that affects firm value
  - none of the given answers
39. According to Clifford W Smith Jr:
- markets impose costs on companies that engage in unethical behaviour
  - market forces provide incentives for ethical behaviour
  - markets impose costs on companies that engage in unethical behaviour, and market forces provide incentives for ethical behaviour
  - markets do not impose costs on companies that engage in unethical behaviour, and market forces do not provide incentives for ethical behaviour
40. A firm that pays a dividend:
- should grow more quickly than an identical firm that pays no dividend
  - should grow more slowly than an identical firm that pays no dividend
  - should grow at the same rate as an identical firm that pays no dividend
  - none of the given answers
41. Fisher's separation theorem states that it is possible to separate the investment decisions of the firm from the consumption decisions of the owners. True or False?  
True False
42. A perfect capital market implies that the borrowing and lending rates cannot be the same. True or False?  
True False
43. Under the two-period model investors allocate their resources through time according to two criteria. True or False?  
True False
44. The certainty model is restricted to a single interval of time of specified length. True or False?  
True False
45. The financing and the investment decisions affect the firm value. True or False?  
True False
46. Of the three decisions facing the financial manager of the firm, it's only the investment decision that affects firm value. True or False?  
True False
47. If used correctly, the NPV and IRR rules give the same accept / reject decisions for a project. True or False?  
True False

48. Arrow's Impossibility Theorem states that when there is an imperfect market there is no longer a unique production decision that would be made by any current owner regardless of the preferences of the owner. True or False?  
True False
49. When a public offering is underwritten, an underwriter or syndicate contracts to purchase from the firm those securities that remain unsold to the public. True or False?  
True False
50. The trading floors in the Australian Stock Exchange were closed in 1991. True or False?  
True False

# 1 Key

1. A business created as a distinct legal entity composed of one or more individuals or entities is known as a:

- A. sole proprietorship
- B. partnership
- C. joint venture
- D. company**

AACSB: Analytic  
Difficulty: Medium

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #1

Section: 1.3 The corporate form of business organisation

2. The primary goal of financial management is to:

- A. maximise current sales
- B. maximise the value of shares**
- C. minimise costs
- D. avoid bankruptcy

AACSB: Analytic  
Difficulty: Medium

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-02 Understand the goal of financial management  
Ross - Chapter 01 #2

Section: 1.4 The goal of financial management

3. The difference between the total value of assets and the total value of liabilities is the \_\_\_\_\_.

- A. net cash flows
- B. net working capital
- C. shareholders' equity**
- D. operating profit

AACSB: Analytic  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-01 Understand the basic types of financial management decisions and the role of the financial manager  
Ross - Chapter 01 #3

Section: 1.2 The Balance Sheet and corporate financial decisions

4. A debt that is not due in the coming year is classified as a(n) \_\_\_\_\_.

- A. indirect liability
- B. direct liability
- C. non-current liability**
- D. current liability

AACSB: Communication  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-01 Understand the basic types of financial management decisions and the role of the financial manager  
Ross - Chapter 01 #4

Section: 1.2 The Balance Sheet and corporate financial decisions

5. Under sole proprietorship, the owner has \_\_\_\_\_ for business debts.

- A. limited liability
- B. unlimited liability**
- C. no liability
- D. limited personal liability

AACSB: Analytic  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #5

Section: 1.3 The corporate form of business organisation

6. Under a partnership, the partners have \_\_\_\_\_ liability for partnership debts.
- A. limited liability
  - B. unlimited liability**
  - C. no liability
  - D. limited personal liability

AACSB: Analytic  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #6

Section: 1.3 The corporate form of business organisation

7. Forming a company involves preparing a(n):
- A. deed
  - B. agreement
  - C. constitution**
  - D. ownership agreement

AACSB: Analytic  
Difficulty: Medium

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #7

Section: 1.3 The corporate form of business organisation

8. Assets are classified as \_\_\_\_\_.
- A. intangible or non-current
  - B. current or non-current**
  - C. cash or accounts receivable
  - D. direct or indirect

AACSB: Analytic  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-01 Understand the basic types of financial management decisions and the role of the financial manager  
Ross - Chapter 01 #8

Section: 1.2 The Balance Sheet and corporate financial decisions

9. The term 'primary market' refers to the:
- A. original sale of securities by governments
  - B. original sale of securities by companies
  - C. securities bought and sold after the original sale
  - D. both original sale of securities by governments and original sale of securities by companies**

AACSB: Analytic  
Difficulty: Medium

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #9

Section: 1.6 Financial markets and the corporation

10. \_\_\_\_\_ states that in a perfect capital market, it is possible to separate the firm's investment decisions from the owners' consumption decisions.
- A. Arrow's impossibility theorem
  - B. Fisher's separation theorem**
  - C. two period perfect certainty model
  - D. the utility curves of investors

AACSB: Analytic  
Difficulty: Medium

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #10

Section: 1.7 The two-period perfect certainty model

11. Under the assumption of perfect certainty:  
A. a firm's future cash flows are known exactly  
B. the market rate of interest is same for all participants  
C. both a firm's future cash flows are known exactly, and the market rate of interest is the same for all participants  
**D.** none of the given answers

AACSB: Analytic  
Difficulty: Medium  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #11  
Section: 1.7 The two-period perfect certainty model

12. Under the assumption of rational investors:  
A. all investors are wealth maximisers  
B. all investors are utility minimisers  
C. all investors are utility maximisers  
**D.** all investors are utility or wealth maximisers

AACSB: Analytic  
Difficulty: Medium  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-01 Understand the basic types of financial management decisions and the role of the financial manager  
Ross - Chapter 01 #12  
Section: 1.7 The two-period perfect certainty model

13. Capital structure is:  
**A.** the mix of debt and equity maintained by a firm  
B. the mix of short-term debt and assets held by a firm  
C. the mix of long-term debt and assets held by a firm  
D. the mix of dividends and debt maintained by a firm

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #13  
Section: 1.2 The Balance Sheet and corporate financial decisions

14. The process of planning and managing a firm's investment in non-current assets is known as:  
A. working capital management  
B. financing decision  
**C.** capital budgeting  
D. earnings decision

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #14  
Section: 1.2 The Balance Sheet and corporate financial decisions

15. Evaluation of size, timing and risk of future cash flows is the essence of:  
A. working capital management  
B. profit maximisation  
**C.** capital budgeting  
D. both profit maximisation and capital budgeting

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-02 Understand the goal of financial management  
Ross - Chapter 01 #15  
Section: 1.2 The Balance Sheet and corporate financial decisions

16. The difference between a firm's current assets and current liabilities is called:  
A. accounting profits  
B. excess profits  
**C. net working capital**  
D. both accounting profits and net working capital

AACSB: Analytic  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-01 Understand the basic types of financial management decisions and the role of the financial manager  
Ross - Chapter 01 #16

Section: 1.2 The Balance Sheet and corporate financial decisions

17. The money market is a(n) \_\_\_\_\_.  
A. long-term market  
B. auction market  
**C. dealer market**  
D. none of the given answers

AACSB: Analytic  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #17

Section: 1.6 Financial markets and the corporation

18. The relationship between shareholders and management is called:  
**A. an agency relationship**  
B. a proxy relationship  
C. a managerial relationship  
D. both an agency relationship and an agency problem

AACSB: Ethics  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-04 Understand the conflicts of interest that can arise between managers and owners  
Ross - Chapter 01 #18

Section: 1.5 The agency problem and control of the corporation

19. \_\_\_\_\_ are financial markets where short-term debt securities are bought and sold.  
**A. money markets**  
B. capital markets  
C. primary markets  
D. secondary markets

AACSB: Analytic  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #19

Section: 1.6 Financial markets and the corporation

20. Which of the following would be considered a current asset on a firm's balance sheet?  
A. accounts receivable  
B. inventory  
C. plant and machinery  
**D. both accounts receivable and inventory**

AACSB: Analytic  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-01 Understand the basic types of financial management decisions and the role of the financial manager  
Ross - Chapter 01 #20

Section: 1.2 The Balance Sheet and corporate financial decisions

21. The possibility of conflict between shareholders and management of the firm is called:
- A. corporate breakdown
  - B.** an agency problem
  - C. management breakdown
  - D. legal liability

AACSB: Ethics  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-04 Understand the conflicts of interest that can arise between managers and owners  
Ross - Chapter 01 #21

Section: 1.5 The agency problem and control of the corporation

22. Agency costs refer to:
- A. the total dividends paid to shareholders over a period of 10 years
  - B. the total interest paid to bondholders over a period of 10 years
  - C. both the total dividends paid to shareholders over a period of 10 years, and the total interest paid to bondholders over a period of 10 years
  - D.** the costs of the conflict of interest between shareholders and management

AACSB: Ethics  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-04 Understand the conflicts of interest that can arise between managers and owners  
Ross - Chapter 01 #22

Section: 1.5 The agency problem and control of the corporation

23. A stakeholder is:
- A. a proxy vote made at a shareholders meeting
  - B. a shareholder of a firm
  - C. a debt-holder of a firm
  - D.** someone other than a shareholder or debt-holder who potentially has a claim on a firm

AACSB: Analytic  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-04 Understand the conflicts of interest that can arise between managers and owners  
Ross - Chapter 01 #23

Section: 1.5 The agency problem and control of the corporation

24. Long-term debt and equity securities are bought and sold in:
- A. money markets
  - B.** capital markets
  - C. primary markets
  - D. secondary markets
  - E. auction markets

AACSB: Analytic  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #24

Section: 1.6 Financial markets and the corporation

25. Commercial paper or bills are examples of:
- A.** money market instruments
  - B. capital market instruments
  - C. secondary market instruments
  - D. long-term debt securities

AACSB: Analytic  
Difficulty: Easy

EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving

Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #25

Section: 1.6 Financial markets and the corporation

26. The total market value of a publicly-listed firm's equity is determined by:
- A. the firm's financial officer
  - B. the firm's board of directors
  - C. the firm's underwriters
  - D.** the investors in the stock market

AACSB: Analytic  
Difficulty: Medium  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-02 Understand the goal of financial management  
Ross - Chapter 01 #26  
Section: 1.4 The goal of financial management

27. The \_\_\_\_\_ market provides the means for transferring ownership of corporate securities.
- A. dealer
  - B. auction
  - C. primary
  - D.** secondary

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #27  
Section: 1.6 Financial markets and the corporation

28. Until October 1987, all stock exchange transactions were conducted using the:
- A. dealer market system
  - B. auction market system
  - C.** open outcry system
  - D. primary market system

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #28  
Section: 1.6 Financial markets and the corporation

29. By law, public offerings of debt and equity must be accompanied by a \_\_\_\_\_, which must be lodged with ASIC.
- A. balance sheet
  - B. statement of capital structure
  - C. statement of cash flows
  - D.** prospectus

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #29  
Section: 1.6 Financial markets and the corporation

30. Which of the following is a disadvantage of partnerships?
- A.** limited life of the business
  - B. they involve lots of agency problems
  - C. they are difficult to set up
  - D. none of the given answers

AACSB: Analytic  
Difficulty: Medium  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-03 Understand the financial implications of the different forms of business organisation  
Ross - Chapter 01 #30  
Section: 1.3 The corporate form of business organisation

31. Indirect agency costs include:
- A. management buying a new company car that is not required
  - B. management deciding to fly first class rather than economy class
  - C. having to pay external auditors
  - D.** lost opportunity due to management not pursuing a value creating investment

AACSB: Ethics  
Difficulty: Difficult  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Ross - Chapter 01 #31

Learning Objective: 01-04 Understand the conflicts of interest that can arise between managers and owners

Section: 1.5 The agency problem and control of the corporation

32. Underperforming management can be replaced by:
- A. a takeover
  - B. a proxy fight
  - C.** either a takeover or a proxy fight
  - D. neither a takeover nor a proxy fight

AACSB: Ethics  
Difficulty: Difficult  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Ross - Chapter 01 #32

Learning Objective: 01-04 Understand the conflicts of interest that can arise between managers and owners

Section: 1.5 The agency problem and control of the corporation

33. Current assets include:
- A.** cash, inventory, and accounts receivable
  - B. cash, inventory, and intangibles
  - C. cash, accounts receivable, and intangibles
  - D. inventory, accounts receivable, and intangibles

AACSB: Analytic  
Difficulty: Medium  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Ross - Chapter 01 #33

Learning Objective: 01-01 Understand the basic types of financial management decisions and the role of the financial manager

Section: 1.1 Corporate finance and the financial manager

34. Accounting income or earnings:
- A. is always higher than cash flow
  - B. is always lower than cash flow
  - C. is the same as cash flow
  - D.** can be very different from cash flow

AACSB: Analytic  
Difficulty: Medium  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Ross - Chapter 01 #34

Learning Objective: 01-02 Understand the goal of financial management

Section: 1.2 The Balance Sheet and corporate financial decisions

35. Which of the following does working capital management NOT involve?
- A. deciding how much inventory to hold
  - B.** deciding whether to increase the dividend
  - C. altering the terms of credit sales
  - D. altering the criteria regarding who to extend sales to

AACSB: Analytic  
Difficulty: Difficult  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Ross - Chapter 01 #35

Learning Objective: 01-02 Understand the goal of financial management

Section: 1.2 The Balance Sheet and corporate financial decisions

36. The assumptions of the two-period perfect certainty model are:  
**A.** perfect certainty, perfect capital markets, and rational investors  
B. perfect uncertainty, perfect capital markets, and rational investors  
C. perfect certainty, imperfect capital markets, and rational investors  
D. perfect certainty, perfect capital markets, and irrational investors

AACSB: Analytic  
Difficulty: Difficult  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #36  
Section: 1.7 The two-period perfect certainty model

37. In a world with perfect capital markets and perfect certainty, it is:  
A. only the financing decision that affects firm value  
B. only the dividend decision that affects firm value  
**C.** only the investment decision that affects firm value  
D. none of the given answers

AACSB: Analytic  
Difficulty: Medium  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #37  
Section: 1.7 The two-period perfect certainty model

38. In a world with perfect capital markets and uncertainty, it is:  
A. only the financing decision that affects firm value  
B. only the dividend decision that affects firm value  
**C.** only the investment decision that affects firm value  
D. none of the given answers

AACSB: Analytic  
Difficulty: Difficult  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #38  
Section: 1.7 The two-period perfect certainty model

39. According to Clifford W Smith Jr:  
A. markets impose costs on companies that engage in unethical behaviour  
B. market forces provide incentives for ethical behaviour  
**C.** markets impose costs on companies that engage in unethical behaviour, and market forces provide incentives for ethical behaviour  
D. markets do not impose costs on companies that engage in unethical behaviour, and market forces do not provide incentives for ethical behaviour

AACSB: Ethics  
Difficulty: Medium  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-04 Understand the conflicts of interest that can arise between managers and owners  
Ross - Chapter 01 #39  
Section: 1.5 The agency problem and control of the corporation

40. A firm that pays a dividend:  
A. should grow more quickly than an identical firm that pays no dividend  
**B.** should grow more slowly than an identical firm that pays no dividend  
C. should grow at the same rate as an identical firm that pays no dividend  
D. none of the given answers

AACSB: Analytic  
Difficulty: Medium  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-02 Understand the goal of financial management  
Ross - Chapter 01 #40  
Section: 1.2 The Balance Sheet and corporate financial decisions

41. Fisher's separation theorem states that it is possible to separate the investment decisions of the firm from the consumption decisions of the owners. True or False?

**TRUE**

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #41  
Section: 1.7 The two-period perfect certainty model

42. A perfect capital market implies that the borrowing and lending rates cannot be the same. True or False?

**FALSE**

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #42  
Section: 1.7 The two-period perfect certainty model

43. Under the two-period model investors allocate their resources through time according to two criteria. True or False?

**TRUE**

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #43  
Section: 1.7 The two-period perfect certainty model

44. The certainty model is restricted to a single interval of time of specified length. True or False?

**FALSE**

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #44  
Section: 1.7 The two-period perfect certainty model

45. The financing and the investment decisions affect the firm value. True or False?

**FALSE**

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #45  
Section: 1.7 The two-period perfect certainty model

46. Of the three decisions facing the financial manager of the firm, it's only the investment decision that affects firm value. True or False?

**TRUE**

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #46  
Section: 1.7 The two-period perfect certainty model

47. If used correctly, the NPV and IRR rules give the same accept / reject decisions for a project. True or False?

**TRUE**

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-02 Understand the goal of financial management  
Ross - Chapter 01 #47  
Section: 1.7 The two-period perfect certainty model

48. Arrow's Impossibility Theorem states that when there is an imperfect market there is no longer a unique production decision that would be made by any current owner regardless of the preferences of the owner. True or False?

**TRUE**

AACSB: Analytic  
Difficulty: Medium  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-05 Explain and apply the two-period perfect certainty model.  
Ross - Chapter 01 #48

Section: 1.7 The two-period perfect certainty model

49. When a public offering is underwritten, an underwriter or syndicate contracts to purchase from the firm those securities that remain unsold to the public. True or False?

**TRUE**

AACSB: Analytic  
Difficulty: Easy  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-02 Understand the goal of financial management  
Ross - Chapter 01 #49

Section: 1.7 The two-period perfect certainty model

50. The trading floors in the Australian Stock Exchange were closed in 1991. True or False?

**FALSE**

AACSB: Analytic  
Difficulty: Medium  
EQUIS: Evaluate / form judgements  
Graduate Attribute: Problem solving  
Learning Objective: 01-02 Understand the goal of financial management  
Ross - Chapter 01 #50

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