

Financial Management Solved MCQs (500)

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 2 of 10 (Start time: 04:05:43 PM) .

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Question # 3 of 10 (Start time: 04:06:35 PM) .

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Question # 4 of 10 ..

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

(Rs.100)(PVIFA at 8% for 4 periods) + Rs.100

(Rs.100)(PVIFA at 8% for 4 periods)(1.08)

(Rs.100)(PVIFA at 8% for 6 periods) - Rs.100

Can not be found from the given information

Question # 5 of 10 (Start time: 04:08:40 PM) .

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1

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Question # 6 of 10 (Start time: 04:09:27 PM) .

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

Question # 7 of 10 (Start time: 04:09:56 PM) .

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

Question # 8 of 10 (Start time: 04:10:16 PM) .

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 9 of 10 (Start time: 04:10:31 PM) .

An annuity due is always worth _____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 10 of 10 (Start time: 04:10:53 PM) .

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2

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as: Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint? .

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

Reference

.

3

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

Amount = $P \cdot (1+i/n)^n$

Its not multiple compounding otherwise use this forumal

$P \cdot (1+i/m/n)^{m \cdot n}$

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

.

4

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations? .

Select correct option:

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$

$(Rs.100)(PVIFA \text{ at } 8\% \text{ for } 6 \text{ periods}) - Rs.100$

Can not be found from the given information

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

.

5

Fixed assets of the business

Lon term assets of the business

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

the current yield on a bond is equal to _____.

Select correct option:

Annual interest divided by the current market price

The yield to maturity

Annual interest divided by the par value

The internal rate of return

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

.

6

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

$FV = PMT * ((1+i)^n - 1)/i$ (formula use to calc fv of annuity)

$PV = PMT * ((1+i)^{-n} - 1)/i$ (formula use to calc PV of annuity)

Try to remember above two formulas for calc of annuity

$$1000 = pmt * ((1.05)^8 - 1)/.05$$

$$1000 = PMT * 6.46$$

$$PMT = 1000/6.46 = 154.73$$

Now from above two ann

MGT201 Solved MCQ3 from Quiz

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

.

7

Directors

Where there is single period capital rationing, what the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR

PV

NPV

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around _____ in interest.

Select correct option:

Rs.840

Rs.858

Rs.1,032

Rs.1,121

.

8

$\{ [1 + (.056/360)] ^ [270] - 1 \} = .042891$ or 4.2891%. Thus, \$20,000 (.042891) = \$857.82.

Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

Rs.99,061

Rs.915,240

.

9

Amount = $P \cdot (1 + i/n)^n$

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

MGT201 Solved MCQ4 from Quiz

Question # 1 of 10

An annuity due is always worth _____ a comparable annuity.

Select correct option:

.

10

Less than

More than

Equal to

Can not be found from the given information

Question # 2 of 10 (Start time: 04:11:40 PM) .

Which of the following would be considered a cash-flow item from an "investing" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

Question # 3 of 10 (Start time: 04:13:04 PM) .

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

.

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Question # 4 of 10 (Start time: 04:13:54 PM) .

Where there is single period capital rationing, what the most sensible way of making investment decisions? .

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Question # 5 of 10 (Start time: 04:15:07 PM) .

Which of the following statements is correct in distinguishing between serial bonds and sinking-fund bonds?

Select correct option:

Serial bonds mature at a variety of dates, but sinking-fund bonds mature at a single date.

Serial bonds provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do not provide for the deliberate retirement of bonds prior to maturity

Serial bonds do not provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do provide for the deliberate retirement of bonds prior to maturity.

None of the above are correct since

.

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Question # 6 of 10 (Start time: 04:16:37 PM) .

Which group of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

Debt ratios show the extent to which the firm is financed with debt.

Question # 7 of 10 (Start time: 04:17:10 PM) .

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Question # 8 of 10 (Start time: 04:18:03 PM) .

Which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

.

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Depreciation

Sunk cost

Opportunity cost
Non-cash item

Question # 9 of 10 (Start time: 04:19:01 PM) .

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

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Select correct option:

Pay back period

Internal rate of return
Net present value
Profitability index

MGT201 Current Quiz # 3

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm **A dividend yield which is less than that of the average firm**

Less predictable earnings growth than that of the average firm

Greater cyclical of earnings growth than that of the average firm Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

.

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Interest tax shield

Depreciable basis
Financing umbrella
Current yield

The reduction in income taxes that results from the tax-deductibility of interest payments.

Tax benefits derived from creative structuring of a financing arrangement. For example, using loan capital instead of equity capital because interest paid on the loans is generally tax deductible whereas the dividend paid on equity is not Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Ref It discounts the cash flow to take into the account the time value of money.

Reference

Expected Portfolio Return = _____.

Select correct option:

$$rP^* = xA rA + xB rB$$

$$rP^* = xA rA - xB rB$$

$$rP^* = xA rA / xB rB$$

$$rP^* = xA rA * xB rB$$

What is the most important criteria in capital budgeting?

Select correct option:

.

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Return on investment

Profitability index

Net present value

Pay back period

If stock is a part of totally diversified portfolio then its company risk must be equal to:

Select correct option:

0

0.5

1

-1

For most firms, P/E ratios and risk_____.

Select correct option:

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Which of the following stipulate a relationship between expected return and risk?

Select correct option:

APT stipulates

CAPM stipulates

Both CAPM and APT stipulate

Neither CAPM nor APT stipulate

=====

Which of the following factors might affect stock returns?

Select correct option:

Business cycle

.

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Interest rate fluctuations

Inflation rates

All of the above

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

.

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Common equity financing

Why markets and market returns fluctuate?

Select correct option:

Because of political factors

Because of social factors

Because of socio-political factors

Because of macro systematic factors

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

(Rs.100)(PVIFA at 8% for 4 periods) + Rs.100

(Rs.100)(PVIFA at 8% for 4 periods)(1.08)

(Rs.100)(PVIFA at 8% for 6 periods) - Rs.100

Can not be found from the given information

.

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To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Which of the following is NOT the form of cash flow generated by the investments of the shareholders?

Select correct option:

Income

Capital loss

Capital gain

Operating income

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following: **Select correct option:**

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

If all things equal, when diversification is most effective?

Select correct option:

.

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Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return.

II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

III only

II and III only

As interest rates go up, the present value of a stream of fixed cash flows _____.

Select correct option:

Goes down

Goes up

Stays the same

Can not be found from the given information

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

Maximizing the market value of the firm

Maximizing the market value of the firm only if MM's Proposition I
Minimizing the market value of the firm only if MM's Proposition I holds **Maximizing the profits of the firm**

Which of the following formulas represents a correct calculation of the degree of operating leverage?

.

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Select correct option:

$(Q - QBE)/Q$

$(EBIT) / (EBIT - FC)$

$[Q(P-V) + FC] / [Q(P-V)]$

$$Q(P-V) / [Q(P-V) - FC]$$

The value of a bond is directly derived from which of the following?

Select correct option: .

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

.

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure
The market value of a firm's debt is independent of its capital structure
The market value of any firm is independent of its capital structure
None of the given options

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

.

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Select correct option:

Common stock

Debt

Preferred stock

None of the above

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities **The market price per share**

of the firm's common stock

The amount of salary paid to its employees

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

Raising capital

.

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

.

Which of the following is the value of beta for the market portfolio?

Select correct option:

0.25

-1.0

1.0

0.5

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Why common stock of a company must provide a higher expected return than the debt of the same company?

Select correct option:

There is less demand for stock than for bonds

There is greater demand for stock than for bonds

There is more systematic risk involved for the common stock

There is a market premium required for bonds

_____ is equal to (common shareholders' equity/common shares outstanding).

Select correct option:

Book value per share

Liquidation value per share

Market value per share

None of the above

When a bond will sell at a discount?

Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity .

The coupon rate is less than the current yield and the current yield is less than yield to maturity .

In order for the investor to earn more than the current yield the bond must be selling for a discount. Yield to maturity will be greater than current yield as investor will have purchased the bond at discount and will be receiving the coupon payments over the life of the bond.

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Cash budgets are prepared from past:

Select correct option:

.

Balance sheets
Income statements
Income tax and depreciation data
None of the given options

The cash budget is prepared from forecasted cash collections and disbursements rather than from the cash flow statement. If we were to increase ABC company's cost of equity assumption, what would we expect to happen to the present value of all future cash flows?

Select correct option:

An increase
A decrease
No change
Incomplete information

Which of the following expressed the proposition that the cost of equity is a positive linear function of capital structure?

Select correct option:

The Capital Asset Pricing Model
M&M Proposition I
M&M Proposition II
The Law of One Price

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business
Liquid assets of the business
Fixed assets of the business
Long term assets of the business

Question # 2 of 20 (Start time: 04:01:59 PM) .

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk
Standard deviation
Unsystematic risk
Coefficient of variation

Unsystematic risk is the diversifiable portion of total risk and not a measure of total risk like standard deviation.

The presence of which of the following costs is not used as a major argument against the M&M arbitrage process?

Select correct option:

Bankruptcy costs

Agency costs

Transactions costs

Insurance costs

The presence of these costs is used as major argument against the M&M arbitrage process What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

According to timing difference problem a good project might suffer from ___ IRR even though its NPV is _____.

Select correct option:

Higher; lower

Lower; Lower

Lower; higher

Higher; higher

Expected Portfolio Return = _____.

Select correct option:

$r_P^* = x_A r_A + x_B r_B$

$r_P^* = x_A r_A - x_B r_B$

$r_P^* = x_A r_A / x_B r_B$

$r_P^* = x_A r_A * x_B r_B$

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

.

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Closeness to its operating break-even point

Debt-to-equity ratio

For most firms, P/E ratios and risk_ _____.

Select correct option: .

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

The _____ the coefficient of variation _____ the relative risk of the investment.

Select correct option:

Larger; Larger

Larger; Smaller

Smaller; Larger

Smaller; Smaller

You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

Select correct option:

Project A dominates project B

Project B dominates project A

Neither project dominates the other in terms of risk and return Incomplete information

The expected net present value of B is greater than the expected net present value of A and the risk of B exceeds the risk of A, so neither dominates the other.

_____ means expanding the number of investments which cover different kinds of stocks.

Select correct option:

Diversification

Standard deviation

Variance

Covariance

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

.

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The sum of common stock and preferred stock on the balance sheet

The book value of the firm

The current market price per share of common stock times the number of shares Outstanding

What is the long-run objective of financial management?

Select correct option:

Maximize earnings per share

Maximize the value of the firm's common stock

Maximize return on investment

Maximize market share

_____are analysts who use information concerning current and prospective profitability of firms to assess the firm's fair market value.

Select correct option:

Credit analysts

Fundamental analysts

Systems analysts

Technical analysts

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

M&M Proposition II

The Law of One Price

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

Pay back period

Internal rate of return

Net present value

Profitability index

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

If 2 stocks move in the same direction together then what will be the correlation coefficient?

Select correct option:

0

1.0

-1.0

1.5

which of the following needs to be excluded while we calculate the incremental cash flows?

Select correct option:

Depreciation

Sunk cost

Opportunity cost

Non-cash item

If risk and return combination of any stock is above the SML, what does it mean?

Select correct option:

It is offering lower rate of return as compared to the efficient stock **It is offering higher rate of return as compared to the efficient stock** Its rate of return is zero as compared to the efficient stock

It is offering rate of return equal to the efficient stock

Which of the following techniques would be used for a project that has non-normal cash flows?

Select correct option:

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

.

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Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

Which of the following statements is correct for a firm that currently has total costs of carrying and ordering inventory that is 50% higher than total carrying costs?

Select correct option:

Current order size is greater than optimal

Current order size is less than optimal

Per unit carrying costs are too high

The optimal order size is currently being used

When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same I, II, and III not sure

I only

III only

II and III only

An implicit cost of adding debt to the capital structure is that it: Select correct option:

Adds interest expense to the operating statement

Increases the required return on equity

Reduces the expected return on assets

Decreases the firm's beta

.

31

Which of the following statements regarding covariance is correct?

Select correct option:

Covariance always lies in the range -1 to +1

Covariance, because it involves a squared value, must always be a positive number (or zero) Low covariances among returns for different securities leads to high portfolio risk **Covariances can take on positive, negative, or zero values** Which of the following is not a form of short-term, spontaneous credit?

Select correct option:

Accrued wages

Trade credit

Commercial paper

Accrued taxes

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Above the breakeven EBIT, increased financial leverage will _____ EPS, all else the same.

Assume there are no taxes

Select correct option:

Increase

Decrease

Either increase or decrease

None of the given options

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

Common shares

Preferred shares

.

32

If we invest in many securities which are _____ to each other then it is possible to reduce overall risk for your investment.

Select correct option:

Comparable

Correlated

Highly correlated

Negatively correlated

The objective of financial management is to maximize _____ wealth.

Select correct option:

Stakeholders

Shareholders

Bondholders

Directors

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has _____.

Select correct option:

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm Less predictable earnings growth than that of the average firm

Greater cyclical growth of earnings than that of the average firm The stock in your portfolio was selling for Rs.40 per share yesterday, but has today declared a three for two split. Which of the following statements seems to be true?

Select correct option:

There will be two-thirds as many shares outstanding, and they will sell for Rs.60.00 each

There will be four times as many shares outstanding, and they will sell for Rs.160.00 each

There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each

There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

.

33

Under the idealized conditions of MM, which statement is correct when a firm issues new stock in order to pay a cash dividend on existing shares?

Select correct option:

The new shares are worth less than the old shares

The old shares drop in value to equal the new price

The value of the firm is reduced by the amount of the dividend

The value of the firm is unaffected

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

When taxes are considered, the value of a levered firm equals the value of the_ _____.

Select correct option:

Unlevered firm

Unlevered firm plus the value of the debt

Unlevered firm plus the present value of the tax shield

Unlevered firm plus the value of the debt plus the value of the tax shield Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

.

34

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

Discount basis interest rate

Long-term bond rate

Prime rate

Fed funds rate

According to _____, the firm's cost of equity increases with greater debt financing, but the WACC remains unchanged.

Select correct option:

M&M Proposition I with taxes

M&M Proposition I without taxes

M&M Proposition II without taxes

M&M Proposition II with taxes

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

.

35

Expected return

Standard deviation

Coefficient of variation

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

What is the economic order quantity for the following situation? A firm sells 32,000 cases of microwave popcorn per year. The cost per order is Rs.20 per case and the firm experiences a carrying cost of 8.0%.

Select correct option:

2,000 cases

.

36

4,000 cases

8,000 cases
16,000 cases

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets
Fixed assets
Current assets
Current assets minus current liabilities

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure
The market value of a firm's debt is independent of its capital structure
The market value of any firm is independent of its capital structure
None of the given options

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

.

37

The book value of the firm's assets less the book value of its liabilities
The market price per share of the firm's common stock

The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?

Select correct option: .

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

.

38

Remain unchanged

Incomplete information

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

.

39

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

.

40

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

.

41

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

How the beta of the stock could be calculated?

Select correct option:

By monitoring price of the stock

By monitoring rate of return of the stock

By comparing the changes in the stock market price to the changes in the stock market index

.

42

All of the given options

Which of the following is a payment of additional shares to shareholders in lieu of cash?

Select correct option:

- Stock split
- Stock dividend**
- Extra dividend
- Regular dividend

What is potentially the biggest advantage of a small partnership over a sole proprietorship?
Select correct option:

- Unlimited liability
- Single tax filing
- Difficult ownership resale
- Raising capital**

Which of the following would generally have unlimited liability?
Select correct option:

- A limited partner in a partnership
- A shareholder in a corporation
- The owner of a sole proprietorship**
- A member in a limited liability company (LLC)

.

43

Which of the following is related to the use Lower financial leverage?
Select correct option:

- Fixed costs
- Variable costs
- Debt financing
- Common equity financing**

Which group of ratios measures a firm's ability to meet short-term obligations?
Select correct option:

- Liquidity ratios**
- Debt ratios
- Coverage ratios
- Profitability ratios

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

.

44

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a _____.

Select correct option:

Compensating balance arrangement

Revolving credit agreement

Transaction loan

Line of credit

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

.

45

Select correct option:

Discount basis interest rate

Long-term bond rate

Prime rate

Fed funds rate

The explicit costs associated with corporate default, such as legal expenses, are the _____ of the firm.

Select correct option:

Flotation costs

Default beta coefficients

Direct bankruptcy costs

Indirect bankruptcy costs

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Which statement is NOT true regarding the market portfolio?

Select correct option:

.

46

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve All securities in the market portfolio are held in proportion to their market values It lies on the efficient frontier

Which of the following factor(s) do NOT affects the movements in the market index?

Select correct option:

Macroeconomic factors

Socio political factors

Social factors

All of the given options

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged
Incomplete information

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

.

47

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

A statistical measure of the variability of a distribution around its mean is referred to as _____.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

The benefit we expect from a project is expressed in terms of:

Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

.

48

Long-term debt

Preferred stock

Common stock

None of the given options

What is the economic order quantity for the following situation? A firm sells 32,000 cases of microwave popcorn per year. The cost per order is Rs.20 per case and the firm experiences a carrying cost of 8.0%.

Select correct option:

2,000 cases

4,000 cases

8,000 cases

16,000 cases

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

.

49

The market value of a firm's common stock is independent of its capital structure The market value of a firm's debt is independent of its capital structure **The market value of any firm is independent of its capital structure** None of the given options

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities **The market price per share of the firm's common stock**

The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

.

50

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

.

51

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Why companies invest in projects with negative NPV?

Select correct option:

Because there is hidden value in each project

Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ___ a comparable annuity.

Select correct option:

Less than

More than

.

52

Equal to

Can not be found from the given information

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

Market risk

Unsystematic risk

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

.

53

By selling common stock

When Investors want high plowback ratios?

Select correct option:

Whenever $ROE > k$

Whenever $k > ROE$

Only when they are in low tax brackets

Whenever bank interest rates are high]

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

Which of the following would NOT improve the current ratio?

Select correct option:

Borrow short term to finance additional fixed assets

Issue long-term debt to buy inventory

Sell common stock to reduce current liabilities

Sell fixed assets to reduce accounts payable

When bonds are issued, under which of the following category the value of the bond appears?

Select correct option:

Equity

Fixed assets

Short term loan

Long term loan

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

,

.

54

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

Maximizing the market value of the firm

Maximizing the market value of the firm only if MM's Proposition I
Minimizing the market value of the firm only if MM's Proposition I holds
Maximizing the profits of the firm

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

Fixed assets

Current assets

Current assets minus current liabilities

Which of the followings are the propositions of Modigliani and Miller's?

Select correct option:

The market value of a firm's common stock is independent of its capital structure
The market value of a firm's debt is independent of its capital structure
The market value of any firm is independent of its capital structure
None of the given options

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Select correct option:

The number of people employed in the firm

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The market price per share of the firm's common stock

The amount of salary paid to its employees

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

Select correct option:

Fall

.

55

Rise

Remain unchanged

Incomplete information

Which of the following is an example of restructuring the firm?

Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share

A new investment increases the firm's business risk

New equity is issued and the proceeds repay debt

A new Board of Directors is elected to the firm

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

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Select correct option:

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Because there may be chance of rapid growth

Because they have invested a lot

All of the given options

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

An annuity due is always worth ____ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

.

56

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

Financing short-term needs with short-term funds

Financing permanent inventory buildup with long-term debt

Financing seasonal needs with short-term funds

Financing some long-term needs with short-term funds

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

By borrowing more

By shifting short-term to long-term debt

By shifting long-term to short-term debt

By selling common stock

Which of the following factor(s) do NOT affects the movements in the market index?

Select correct option:

Macroeconomic factors

Socio political factors

Social factors

All of the given options

Which of the following is a major disadvantage of the corporate form of organization?

Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

.

57

Limited life of the corporate form

To increase a given future value, the discount rate should be adjusted _____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Investors may be willing to pay a premium for stable dividends because of the informational content of _____, the desire of investors for _____, and certain _____.

Select correct option: .

Institutional considerations; dividends; current income

Dividends; current income; institutional considerations

Current income; dividends; institutional considerations

Institutional considerations; current income; dividends

Which of the following is the stability of a firm's operating income?

Select correct option:

Financial leverage

Weighted-average cost of capital

Capital structure

Business risk

.

58

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Coefficient of variation is NOT the measure of _____.

Select correct option:

Risk

Probability

Relative dispersion

Risk per unit of expected return

.

59

because its dispersion of probability

If Deen Muhammad Suppliers receive an invoice for purchases dated 12/12/2002 subject to credit terms of "2/10, net 30", what is the last possible day the discount can be taken?

Select correct option:

January 11

January 22

January 30

December 30

The term "2/10" refers to a firm that can take the discount for only 10 days from the date of the invoice. Thus, goods shipped on the 12th are due no later than the 22nd if the discount is taken

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Which of the following is a basic principle of finance as it relates to the management of working capital?

Select correct option:

Profitability varies inversely with risk

Liquidity moves together with risk

Profitability moves together with risk

.

60

Profitability moves together with liquidity

Which of the following effects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

Systematic risk

Standard deviation

Unsystematic risk

Coefficient of variation

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

Profitability index

Internal rate of return

Multiple Internal rate of return

What does the law of conservation of value implies?

Select correct option:

.

61

The mix of senior and subordinated debt does not affect the value of the firm The mix of convertible and non-convertible debt does not affect the value of the firm The mix of common stock and preferred stock does not affect the value of the firm **All of the given options**

If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?

Select correct option:

The firm has minimized its total carrying costs

The firm should increase its order size

The firm should decrease its order size

The firm has maximized its order costs

What is the present value of Rs.8,000 to be paid at the end of three years if the correct risk adjusted interest rate is 11%?

Select correct option:

Rs.5,850

Rs.4,872

Rs.6,725

Rs.1,842

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

.

62

Profitability index

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

Select correct option:

Cash budgeting

Capital budgeting

Capital rationing

Capital expenditure

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option:

Money market

Capital market

Primary market

Secondary market

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity **It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge** It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.

.

63

Select correct option:

Fall

Rise

Remain unchanged

Incomplete information

According to MM II, what happens when a firm's debt-to-equity ratio increases?

Select correct option:

Its financial risk increases

Its operating risk increases

The expected return on equity increases

The expected return on equity decreases

[http://highered.mcgraw-](http://highered.mcgraw-hill.com/sites/0073012386/student_view0/chapter15/multiple_choice_quiz.html)

[hill.com/sites/0073012386/student_view0/chapter15/multiple_choice_quiz.html](http://highered.mcgraw-hill.com/sites/0073012386/student_view0/chapter15/multiple_choice_quiz.html) What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

.

64

Both represent how much each security's price will increase in a year **Both represent the security's annual income divided by its price** Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

Liquidity ratios

Debt ratios

Coverage ratios
Profitability ratios

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

.

65

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends
Cash inflow to the firm from selling new common equity shares
Cash outflow to purchase bonds issued by another company

Which of the following could be defined as the capital structure of the Company?

Select correct option:

The firm's mix of different securities

The firm's debt-equity ratio

The market imperfection that the firm's manager can exploit
All of the above

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve All securities in the market portfolio are held in proportion to their market values It lies on the efficient frontier

Which of the following could NOT be defined as the capital structure of the Company?

Select correct option:

The firm's mix of Assets and liabilities

66

The firm's common stocks only

The firm's debt-equity ratio

All of the given options

Which of the following refers to a policy of dividend "smoothing"?

Select correct option:

Maintaining a constant dividend payout ratio

Keeping the regular dividend at the same level indefinitely

Maintaining a steady progression of dividend increases over time Alternating cash dividends with stock dividends

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will line above the regression line

It will line exactly on the regression line not sure

It will be tangent to the regression line

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will line above the regression line

67

It will line exactly on the regression line

It will be tangent to the regression line

Which of the following is the characteristic of a well diversified portfolio?

Select correct option:

Its market risk is negligible

Its unsystematic risk is negligible

Its systematic risk is negligible

All of the given options

Which of the following portfolio statistics statements is correct?

Select correct option:

A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.

A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

The square root of a portfolio's standard deviation of return equals its variance.

The square root of a portfolio's standard deviation of return equals its coefficient of variation What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

.

68

The sum of common stock and preferred stock on the balance sheet

The book value of the firm

The current market price per share of common stock times the number of shares Outstanding

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows

Coupon receipts

Par recovery at maturity

All of the given options

1. Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business. His best choice of form of ownership would be:

a. S-corporation

b. Partnership

c. Corporation

d. Sole proprietorship

2. A tool that identifies the strengths, weaknesses, opportunities and threats of an organization is know as:

a. **SWOT Analysis**

b. Trend Analysis

c. Fundamental Analysis

d. Technical Analysis

3. When the market's required rate of return for a particular bond is much less than its coupon rate, the bond is selling at:

a. A premium

b. A discount

c. Cannot be determined without more information

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d. Face value

4. Which of the following statements *best* describe the 'Balance Sheet'?

a. Summarizes the firm's revenues and expenses over an accounting period b. Reports how much of the firm's earnings were retained in the business rather than paid out in dividends

c. Reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period

d. States the firm's financial position at a specific point in time **5. Which of the following is the purpose of the Debt management ratios?**

a. They measure the amount of debt the firm uses

b. They measure how effectively a firm is managing its assets

c. They show the relationship of a firm's cash and other current assets to its current liabilities

d. They show the combined effects of all areas of the firm on operating results **6. In which of the**

following situations a project is acceptable?

a. When a project has conventional cash flows patterns

b. When a project has a non-conventional cash flow pattern

c. When a project has a discounted rate higher than the inflation rate **d. When a project has a**

positive net present value

7. The gross profit margin is unchanged, but the net profit margin declined over the same period. This could have happened if:

a. Cost of goods sold increased relative to sales.

b. Sales increased relative to expenses.

c. The tax rate has been increased

d. Dividends were decreased.

8. Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average of 1.4. This means that the company

a. Will not experience any difficulty with its creditors.

b. Has less liquidity than other firms in the industry.

c. Will be viewed as having high creditworthiness.

d. Has greater than average financial risk when compared to other firms in its industry.

9. For purposes of financial statements, the accounting value of fixed assets is:

a. Based on their estimated liquidation value

b. Based on their relative importance to the company

c. Based on their actual purchase price

d. Based on their current market price

10. Which of the following transactions affects the acid-test ratio?

a. Receivables are collected.

b. Inventory is liquidated for cash.

c. New common stock is sold and used to retire a debt issue.

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d. A new common stock issue is sold and equipment purchased

11. The rate of return on the best available investment of equal risk is called:

- a. Discounting
- b. Compounding
- c. The opportunity cost rate
- d. Time lines

12. An annuity whose payments occur at the end of each period is called: a. An opportunity cost annuity.

b. An ordinary annuity

c. An annuity due

d. An outflow annuity

13. Which of the following is the rate of return earned on a bond if it is held until maturity?

a. Yield-to-call

b. Coupon payment

c. Yield-to-maturity

d. Sinking fund yield

14. Keeping other things constant, if a bond's yield-to-maturity increases: a. Its price will rise

b. Its price will remain unchanged

c. Its price will fall.

d. Can not be determined

15. A 30-year corporate bond issued in year 1985 would now trade in which of the following markets?

a. Primary capital market

b. Primary money market

c. Secondary money market

d. Secondary capital market

16. When the market's nominal annual required rate of return for a particular bond is less than its coupon rate, the bond will be selling at _____.

a. A discount

b. A premium

c. Par value

d. An indeterminate price

17. The buyer of a zero-coupon bond expects to receive:

a. Price appreciation.

b. A rate of return equal to zero over the life of the bond.

c. Variable dividends instead of a fixed interest payment annually.

d. All interest payments in one lump sum at maturity.

18. The intrinsic value of a share of common stock:

a. Is the discounted value of all future cash dividends

b. Increases when the required rate of return increases, if the dividend is held .

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constant.

c. Is zero if the company pays no dividends

d. Is the discounted capital gain expected on the stock

19. ABC Company will pay a dividend of Rs.2.40 per share at the end of this year. Its dividend yield is 8%. At what price is the stock selling?

a. Rs.40

b. Rs.35

c. Rs.30

d. Rs.25

20. Which of the following stock would provide a regular income to the investor?

a. Growth stock

b. Income stock

c. Aggressive stock

d. Defensive stock

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