

## Version 2

1. Financial management is concerned with the:
  - a. supply and demand
  - b. human capital
  - c. **investment decisions**
  - d. none of the above
2. The Controller's responsibilities are
  - a. capital budgeting
  - b. risk management
  - c. **general ledger**
  - d. all of the above
3. What is better put as a goal of the firm?
  - a. minimum cost
  - b. maximum profits
  - c. maximum earnings after tax
  - d. **maximum earnings per share**
4. According to the Agency Theory: \_\_\_\_\_ can be sure that the \_\_\_\_\_ will make optimal decisions only if appropriate incentives are given and only if the \_\_\_\_\_ are monitored.
  - a. **principals; agents; agents**
  - b. agents; principals; principals
  - c. principals; agents; principals
  - d. agents; principals; agents
5. Managing existing assets efficiently is part of investment decisions
  - a. True
  - b. **False**
6. Which of the following enjoys limited liability
  - a. a general partnership
  - b. **a corporation**
  - c. a sole proprietorship
  - d. none of the above
7. A bond issued by a municipality, in 2002 would now trade in the
  - a. primary capital market
  - b. primary money market
  - c. **secondary capital market**
  - d. secondary money market
8. Which of the following is a financial intermediary
  - a. **insurance companies**
  - b. security exchanges
  - c. government
  - d. all of the above
9. The ability to sell securities in a short period of time in the secondary market without price concession is reflected in:
  - a. **marketability**
  - b. default risk
  - c. taxability
  - d. maturity
10. In a rational world, funds will flow to economic units that are willing to provide the greatest
  - a. present value
  - b. **expected return**
  - c. capitalization rate
  - d. incentives to the management
11. The purpose of financial markets is to:
  - a. promote liquidity
  - b. reduce default risk
  - c. **allocate saving efficiently**
  - d. increase the yield on securities
12. Households participate in the savings sector
  - a. **True**
  - b. False
13. In 3 years you are to receive \$6,000. If the interest rate were to suddenly increase, the present value of that future amount to you would:
  - a. **fall**
  - b. rise
  - c. remain unchanged
  - d. need more information

14. In a typical loan amortization schedule, the amount of interest paid each period
- first increases, then decreases with each payment
  - remains constant with each payment
  - decreases with each payment**
  - increases with each payment
15. If money has a time value, then the future value will always be \_\_\_\_\_ the original amount invested
- same as
  - less than
  - more than**
  - need more information
16. If you deposit \$100 in a saving account paying 8 percent simple interest and you keep it for 10 years, the amount of interest accumulated would be:
- \$60
  - \$80**
  - \$90
  - \$100
17. The future value in the question above would be:
- \$140
  - \$150
  - \$160
  - \$180**
18. Under annuity due payments occur at the end of each period
- True
  - False**
19. What is the present value of a \$500 that earn 10% annually for an infinite number of periods?
- \$500
  - \$1,000
  - \$5,000**
  - \$15,000
20. The amount a firm could be sold for as a continuing operating business
- market value
  - intrinsic value
  - liquidation value
  - going-concern value**
21. Discount (capitalization) rate is dependent on the risk of the security
- True**
  - False
22. The expected rate of return on a bond if bought at its current market price and held to maturity is a
- current yield
  - coupon yield
  - yield to maturity**
  - capital gain yield
23. Common stock represents a residual ownership position in the corporation
- True**
  - False
24. This type of risk is not avoidable through diversification
- portfolio risk
  - systematic risk**
  - unsystematic risk
  - total risk
25. A statistical measure of the variability of a distribution around its mean
- certainty equivalent
  - coefficient of variation
  - standard deviation**
  - expected return
26. A line that describes the relationship between an individual security's returns and its systematic risk
- security market line**
  - capital market line
  - characteristic line
  - beta
27. The expected return on a risk-free security is zero
- True
  - False**

28. Beta is
- an index of systematic risk
  - the slope of a security's characteristic line
  - both a. and b.**
  - none of the above
29. Beta of aggressive shares is
- more than zero
  - less than zero
  - more than one**
  - less than one
30. The stock is overvalued if the intrinsic value exceeds the market price
- True
  - False**
31. A summary of a firm's revenues and expenses over a specified period
- flow of funds statement
  - cash flows statement
  - income statement**
  - balance sheet
32. The current ratio is always \_\_\_\_\_ than quick ratio
- smaller
  - larger**
  - equal
  - none of the above
33. Which statement is wrong?
- Assets - Liabilities = Equity
  - Assets - Equity = Liabilities
  - Assets = Liabilities + Equity
  - none of the above**
34. Profitability ratios include:
- stockholders equity to total assets
  - accounts receivable turnover
  - earnings per share**
  - current ratio
35. Which ratio measures income earned on each share of common stock?
- equity ratio
  - profit margin
  - earning per share**
  - times interest earned
36. Failure to adjust for inflation may result in misleading results of financial analysis
- True**
  - False
37. Which of the following is an asset in the balance sheet?
- accounts receivable**
  - accounts payable
  - retained earnings
  - long-term debt
38. Source of funds include
- decrease in equity
  - decrease in assets**
  - increase in assets
  - all of the above
39. Which of the following is registered as a cash inflow in the "financing activities" section of the cash flows statement?
- repay amounts borrowed
  - purchase of fixed assets
  - sales of goods/services
  - borrowing**
40. The direct method of preparing cash flows statements reports the operating cash flows by beginning with net income and adjusting it for revenues and expenses that do not involve the receipt or payment of cash
- True
  - False**
41. An investment project will cost \$100,000 and have a useful life of 5 years. During the first 2 years, the net incremental after-tax cash flows are \$40,000 per year and for the last two years they are \$20,000 per year. What is the payback period for this investment?
- 2.5 years
  - 3.0 years**

- c. 3.5 years
  - d. not enough information
42. Alternative methods of project evaluation include
- a. payback period
  - b. net present value
  - c. internal rate of return
  - d. **all of the above**
43. The discount rate that equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is:
- a. external rate of return
  - b. **internal rate of return**
  - c. maturity rate
  - d. yield
44. IRR method's strengths is in assuming all cash flows reinvested at the IRR
- a. True
  - b. **False**
45. For a typical project, increasing the discount rate decreases the project's value.
- a. **True**
  - b. False
46. Net Present Value method generates the greatest increase in shareholder wealth when a limited capital budget exists for a single period
- a. True
  - b. **False**
47. Project acceptance criteria is:
- a. **profitability index > one**
  - b. net present value < zero
  - c. payback period > useful life
  - d. internal rate of return < hurdle rate
48. Simulation approach is an approach that allows to test the possible results of an investment proposal before it is accepted
- a. **True**
  - b. False
49. The lower standard deviation of expected returns of a project, the higher risk of that project
- a. True
  - b. **False**
50. The investment proposal with greatest relative risk would have the highest standard deviation of net present value
- a. True
  - b. **False**

## Version 1

1. Financial management is concerned with the:
  - a. technological progress
  - b. **management of assets**
  - c. cross-functional capabilities
  - d. none of the above
2. The Treasurer's responsibilities cover:
  - a. general ledger
  - b. **credit management**
  - c. cost accounting
  - d. all of the above
3. What is a better indicator of business performance?
  - a. coefficient of variation
  - b. **share price**
  - c. profits
  - d. beta
4. According to the Agency Theory: \_\_\_\_\_ must provide incentives so that \_\_\_\_\_ act in the \_\_\_\_\_ best interests
  - a. principals; agents; agents
  - b. agents; principals; principals
  - c. **principals; agents; principals**
  - d. agents; principals; agents
5. Optimal firm size is part of asset management decisions
  - a. True
  - b. **False**
6. Which of the following carries unlimited liability
  - a. a sole proprietorship
  - b. a general partnership
  - c. **both a. and b.**
  - d. none of the above
7. A share issued by a corporation, in 2002 would now trade in the
  - a. primary money market
  - b. secondary money market
  - c. primary capital market
  - d. **secondary capital market**
8. Which of the following is not a financial intermediary
  - a. commercial banks
  - b. finance companies
  - c. **security exchanges**
  - d. all of the above
9. The failure to meet the terms of a contract is reflected in:
  - a. liquidity
  - b. taxability
  - c. **default risk**
  - d. marketability
10. In a rational world, the highest expected returns will be offered only by those economic units with the most
  - a. **promising investment opportunities**
  - b. socially responsible managers
  - c. cost-efficient productions
  - d. risk averse investments
11. The purpose of financial markets is to:
  - a. increase the price of common stock
  - b. **allocate saving efficiently**
  - c. lower the yield on bonds
  - d. control inflation
12. Households participate in the investment sector
  - a. **True**
  - b. False
13. In 5 years you are to receive \$8,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would:
  - a. fall
  - b. **rise**
  - c. remain unchanged
  - d. need more information
14. In a typical loan amortization schedule, the amount of principal paid each period
  - a. first increases, then decreases with each payment

- b. remains constant with each payment
  - c. decreases with each payment
  - d. **increases with each payment**
15. If money has a time value, then the present value will always be \_\_\_\_\_ the original amount invested
- a. same as
  - b. **less than**
  - c. more than
  - d. need more information
16. If you deposit \$200 in a saving account paying 10 percent simple interest and you keep it for 10 years, the amount of interest accumulated would be:
- a. \$400
  - b. \$300
  - c. **\$200**
  - d. \$100
17. The future value in the question above would be:
- a. \$200
  - b. **\$400**
  - c. \$600
  - d. \$800
18. Under ordinary annuity payments occur at the beginning of each period
- a. True
  - b. **False**
19. What is the present value of a \$1,000 that earn 8% annually for an infinite number of periods?
- a. \$80
  - b. \$800
  - c. \$1,000
  - d. **\$12,500**
20. The amount of money that could be realized if an asset or group of assets is sold separately from its operating organization is the:
- a. going-concern value
  - b. **liquidation value**
  - c. intrinsic value
  - d. market value
21. Discount (capitalization) rate is composed of the risk-free rate plus a premium for risk of the security
- a. **True**
  - b. False
22. Valuation of any long-term security involves capitalization of that security's income stream by a:
- a. current yield
  - b. **discount rate**
  - c. yield to maturity
  - d. capital gain yield
23. Preferred stock represents a residual ownership position in the corporation
- a. True
  - b. **False**
24. This type of risk is avoidable through diversification
- a. portfolio risk
  - b. systematic risk
  - c. **unsystematic risk**
  - d. total risk
25. A statistical measure of the variability of returns from those that are expected
- a. certainty equivalent
  - b. coefficient of variation
  - c. standard deviation
  - d. **expected return**
26. A line that describes the relationship between an individual security's returns and returns on the market portfolio
- a. security market line
  - b. capital market line
  - c. **characteristic line**
  - d. beta
27. The yield of a risk-free security is zero
- a. True
  - b. **False**
28. Beta is the slope of

- a. the security market line
  - b. the capital market line
  - c. **a characteristic line**
  - d. the CAPM
29. Beta of defensive shares is
- a. more than zero
  - b. less than zero
  - c. more than one
  - d. **less than one**
30. The stock is overvalued if the market price exceeds the intrinsic value
- a. **True**
  - b. False
31. A summary of a firm's financial position on a given date
- a. flow of funds statement
  - b. cash flows statement
  - c. income statement
  - d. **balance sheet**
32. The quick ratio is always \_\_\_\_\_ than current ratio
- a. **smaller**
  - b. larger
  - c. equal
  - d. none of the above
33. Which statement is true?
- a. Assets + Liabilities = Equity
  - b. Assets + Equity = Liabilities
  - c. **Assets = Liabilities + Equity**
  - d. all of the above
34. Debt-paying ability ratios include:
- a. dividend yield rate
  - b. inventory turnover
  - c. earnings per share
  - d. **stockholders equity to total assets**
35. Which ratio shows relationship between highly liquid assets and current liabilities?
- a. **quick ratio**
  - b. current ratio
  - c. working capital
  - d. times interest earned
36. Failure to adjust for changes in business environment may result in misleading results of financial analysis
- a. **True**
  - b. False
37. Which of the following is a liability in the balance sheet?
- a. accounts receivable
  - b. **accounts payable**
  - c. inventories
  - d. cash
38. Uses of funds include
- a. increase in liabilities
  - b. decrease in assets
  - c. **increase in assets**
  - d. all of the above
39. Which of the following is registered as a cash outflow in the "investing activities" section of a cash flows statement?
- a. payments to suppliers
  - b. repurchase own equity securities
  - c. **purchase of securities of other entities**
  - d. sales of securities of other entities
40. The indirect method of preparing cash flows statements reports the source of operating cash and the uses of operating cash
- a. True
  - b. **False**
41. An investment project will cost \$200,000 and have a useful life of 5 years. During the first 2 years, the net incremental after-tax cash flows are \$40,000 per year and for the last three years they are \$60,000 per year. What is the payback period for this investment?
- a. 3.0 years
  - b. 3.5 years
  - c. **4.0 years**

- d. not enough information
42. Alternative methods of project evaluation include
- balance sheet
  - profitability index**
  - standard deviation
  - none of the above
43. The discount rate that equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is:
- yield
  - maturity rate
  - internal rate of return**
  - external rate of return
44. IRR method's weakness is in accounting for the time value of money
- True
  - False**
45. For a typical project, decreasing the discount rate increases the project's value.
- True**
  - False
46. Profitability Index method generates the greatest increase in shareholder wealth when a limited capital budget exists for a single period
- True**
  - False
47. Project rejection criteria is:
- profitability index > one
  - net present value > zero
  - payback period < useful life
  - internal rate of return < hurdle rate**
48. Simulation approach is an approach that allows to test the possible results of an investment proposal after it is accepted
- True
  - False**
49. The higher standard deviation of expected returns of a project, the less risk of that project
- True
  - False**
50. The investment proposal with greatest relative risk would have the highest expected value of net present value
- True
  - False**