***Fundamentals of Corporate Finance, 5e* (Parrino)**

**Chapter 1 The Financial Manager and the Firm**

Question type: True/False

1) The financial manager is responsible for making decisions that are in the best interests of the firm's owners.

Answer: TRUE

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: FSA

AICPA: Process and Resource Management Perspectives

2) A patent is a productive asset for a technology-based firm.

Answer: TRUE

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

3) Intangible assets generate most of a manufacturing firm's cash flows.

Answer: FALSE

Diff: 2

Learning Objective: LO 1

Bloomcode: Application

AACSB: Analytic

IMA: Corporate Finance

AICPA: Process and Resource Management Perspectives

4) The most fundamental way a business can grow in size is by reinvesting cash flows or earnings.

Answer: TRUE

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: FSA

AICPA: Process and Resource Management Perspectives

5) A firm that goes bankrupt will always be liquidated.

Answer: FALSE

Diff: 2

Learning Objective: LO 1

Bloomcode: Application

AACSB: Analytic

IMA: Corporate Finance

AICPA: Resource Management

6) Capital assets are generally short term in nature.

Answer: FALSE

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Corporate Finance

AICPA: Process and Resource Management Perspectives

7) A good capital budgeting or investment decision is one in which the benefits are worth more to the firm than the cost of the project.

Answer: TRUE

Explanation: Regardless of the project, a good investment is one in which the benefits are worth more to the firm than the costs of the asset.

Diff: 2

Learning Objective: LO 1

Bloomcode: Analysis

AACSB: Analytic

IMA: Budget Preparation

AICPA: Resource Management

8) Investment decisions determine how firms raise capital to pay for their investments.

Answer: FALSE

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Investment Decisions

AICPA: Strategic/Critical Thinking

9) Net working capital is the dollar difference between a firm's total current assets and total liabilities.

Answer: FALSE

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Budget Preparation

AICPA: Process and Resource Management Perspectives

10) A sole proprietorship is a business where ownership interest can be transferred to someone else.

Answer: FALSE

Diff: 1

Learning Objective: LO 2

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

11) One of the disadvantages of a general partnership is the double taxation of profits.

Answer: FALSE

Diff: 1

Learning Objective: LO 2

Bloomcode: Comprehension

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives e

12) Unlimited liability means that the owner of a firm is responsible for paying all the bills of the firm in the event of a bankruptcy.

Answer: TRUE

Diff: 2

Learning Objective: LO 2

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

13) The process of transferring ownership of a sole proprietorship is relatively easy compared to a public corporation.

Answer: FALSE

Diff: 1

Learning Objective: LO 2

Bloomcode: Comprehension

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

14) General partners in a business have limited liability with regard to money owed to creditors.

Answer: FALSE

Diff: 1

Learning Objective: LO 2

Bloomcode: Comprehension

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

15) The owners of C-corporations are not subject to double taxation..

Answer: FALSE

Diff: 1

Learning Objective: LO 2

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

16) Privately held corporations are allowed to have stockholders.

Answer: TRUE

Diff: 1

Learning Objective: LO 2

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

17) The treasurer of a corporation usually reports to the CFO of the firm.

Answer: TRUE

Diff: 1

Learning Objective: LO 3

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

18) The external auditors of the firm provide an independent annual audit of the firm’s financial statements and report their findings directly to the CFO of the firm.

Answer: FALSE

Diff: 1

Learning Objective: LO 3

Bloomcode: Knowledge

AACSB: Analytic

IMA: Reporting

AICPA: Reporting

19) Maximizing revenue should be the goal of the firm.

Answer: FALSE

Diff: 1

Learning Objective: LO 4

Bloomcode: Knowledge

AACSB: Analytic

IMA: Performance Measurement

AICPA: Strategic/Critical Thinking

20) An agency conflict can arise when the agent of the firm does not act in the best interest of the owners.

Answer: TRUE

Diff: 2

Learning Objective: LO 5

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

21) The owners of a firm are unaffected by agency costs.

Answer: FALSE

Diff: 2

Learning Objective: LO 5

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

22) Fraudulent business practices do not affect the growth of the financial markets.

Answer: FALSE

Diff: 1

Learning Objective: LO 6

Bloomcode: Knowledge

AACSB: Ethics

IMA: Business Applications

AICPA: Professional Demeanor

Question type: Multiple Choice

23) To start a business, the owners need:

A) a market where there is demand for their product.

B) a clear vision of what products or services they want to produce.

C) the know how to successfully market their product.

D) All of the above.

Answer: D

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

24) A stakeholder is:

A) someone geographically close to the firm's headquarters.

B) someone who has a claim on the cash flows of the firm.

C) a business organization.

D) All of the above.

Answer: B

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

25) If you have provided capital to a firm, then you are:

A) a manager.

B) a stakeholder.

C) a partner.

D) All of the above.

Answer: B

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

26) Which of the following is a stakeholder?

A) An employee

B) A lender

C) The IRS

D) All of the above

Answer: D

Diff: 2

Learning Objective: LO 1

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

27) A trademark is an example of:

A) a liquid asset.

B) an intangible asset.

C) a contingent asset.

D) None of the above.

Answer: B

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

28) Which of the following is **NOT** a characteristic of a shareholder?

A) Expects to receive dividends

B) Expects to receive a capital gain on an investment

C) Expects to receive interest

D) Expects to have rights as defined in the corporation's charter and bylaws

Answer: D

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Corporate Finance

AICPA: Process and Resource Management Perspectives

29) Which of the following is a basic source of funds for a firm?

A) Debt

B) Equity

C) Asset liquidations

D) Both A and B

Answer: D

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Corporate Finance

AICPA: Process and Resource Management Perspectives

30) The cash remaining with the firm after paying its operating expenses, making payments to creditors, and taxes is called:

A) earnings per share.

B) capital contributed in excess of par.

C) residual cash flows.

D) assets.

Answer: C

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Corporate Finance

AICPA: Process and Resource Management Perspectives

31) Cash dividends are paid out of:

A) residual cash flows.

B) liquidated assets.

C) long-term debt.

D) all of the above.

Answer: A

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Corporate Finance

AICPA: Process and Resource Management Perspectives

32) Current liabilities are liabilities that:

A) will be converted to cash within a year.

B) must be paid within a year.

C) will be converted to equity within a year.

D) None of the above.

Answer: B

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Corporate Finance

AICPA: Process and Resource Management Perspectives

33) Current assets are assets that:

A) will be converted to cash within a year.

B) must be paid within a year.

C) will be converted to equity within a year.

D) must be depreciated.

Answer: A

Diff: 1

Learning Objective: LO 1

Bloomcode: Comprehension

AACSB: Analytic

IMA: Budget Preparation

AICPA: Process and Resource Management Perspectives

34) The capital budgeting decision process can be described as:

A) how a firm's day-to-day financial matters should be managed.

B) how a firm’s assets should be financed.

C) determining which productive assets should be purchased.

D) All of the above.

Answer: C

Diff: 2

Learning Objective: LO 1

Bloomcode: Application

AACSB: Analytic

IMA: Budget Preparation

AICPA: Process and Resource Management Perspectives

35) Working capital management decisions help to determine:

A) how a firm's day-to-day financial matters should be managed.

B) how a firm’s assets should be financed.

C) determining which productive assets should be purchased..

D) All of the above.

Answer: A

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Corporate Finance

AICPA: Process and Resource Management Perspectives

36) Capital budgeting decisions generally have the most effect on:

A) the asset portion of the balance sheet.

B) the short-term investment portion of the balance sheet.

C) the current liability portion of the balance sheet.

D) All of the above.

Answer: A

Diff: 2

Learning Objective: LO 1

Bloomcode: Analysis

AACSB: Analytic

IMA: Corporate Finance

AICPA: Process and Resource Management Perspectives

37) A good capital budgeting decision is one in which the perceived benefits of the project are:

A) equal to the cost of the asset.

B) less than the cost of the asset.

C) more than the cost of the asset.

D) All of the above.

Answer: C

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Corporate Finance

AICPA: Strategic/Critical Thinking

38) Financial markets that trade equity and debt instruments with maturities greater than one year are called:

A) money markets.

B) capital markets.

C) over-the-counter exchange.

D) None of the above.

Answer: B

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Corporate Finance

AICPA: Process and Resource Management Perspectives

39) Financial markets that trade equity and debt instruments with maturities less than one year are called:

A) money markets.

B) capital markets.

C) over-the-counter exchange.

D) none of the above.

Answer: A

Diff: 1

Learning Objective: LO 1

Bloomcode: Knowledge

AACSB: Analytic

IMA: Corporate Finance

AICPA: Process and Resource Management Perspectives

40) The profitability of a firm can be negatively affected by:

A) too much inventory.

B) too little inventory.

C) Either A or B.

D) Neither A nor B.

Answer: C

Diff: 2

Learning Objective: LO 1

Bloomcode: Analysis

AACSB: Analytic

IMA: Corporate Finance

AICPA: Resource Management

41) Which of the following business organizational forms subject(s) the owner(s) to unlimited liability?

A) Sole proprietorship

B) General partnership

C) Corporation

D) Both A and B

Answer: D

Diff: 2

Learning Objective: LO 2

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

42) Which of the following business organizational forms create(s) a tax liability on income at the personal income tax rate?

A) Sole proprietorship

B) Partnership

C) Corporation

D) Both A and B

Answer: D

Diff: 2

Learning Objective: LO 2

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

43) Which of the following business organizational forms is/are the easiest one(s) to raise capital?

A) Sole proprietorship

B) Partnership

C) Corporation

D) Both A and B

Answer: C

Diff: 2

Learning Objective: LO 2

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

44) Which of the following types of owners is protected by limited liability?

A) A sole proprietor

B) A general partner

C) Owner of a corporation

D) None of the above

Answer: C

Diff: 1

Learning Objective: LO 2

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

45) Which of the following types of owners cannot be engaged in managing the business?

A) A sole proprietor

B) A general partner

C) A limited partner

D) None of the above

Answer: C

Diff: 2

Learning Objective: LO 2

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

46) Which form(s) of business organization generate(s) the majority of business revenues and profits in the United States?

A) Sole proprietorship

B) Partnership

C) Corporation

D) Both A and B

Answer: C

Diff: 2

Learning Objective: LO 2

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

47) Which organizational form is best suited for a firm to sell its securities to the market?

A) Sole proprietorship

B) Partnership

C) Private corporation

D) Public corporation

Answer: D

Diff: 1

Learning Objective: LO 2

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

48) Which of the following organizational forms is subject to the Securities and Exchange Commission (SEC) regulations?

A) Sole proprietorship

B) Partnership

C) Private corporation

D) Public corporation

Answer: D

Diff: 1

Learning Objective: LO 2

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Governance Perspective

49) Which organizational form best enables the owners of a firm to monitor the professional conduct of other owners of the same firm?

A) Sole proprietorship

B) Partnership

C) Private corporation

D) Public corporation

Answer: B

Diff: 2

Learning Objective: LO 2

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

50) Which of the following is considered a hybrid organizational form?

A) Sole proprietorship

B) Partnership

C) Corporation

D) Limited liability partnership

Answer: D

Diff: 1

Learning Objective: LO 2

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

51) In a public corporation, which of the following reports directly to the owners of a firm?

A) CFO

B) CEO

C) Board of directors

D) Audit committee

Answer: C

Diff: 1

Learning Objective: LO 3

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Process and Resource Management Perspectives

52) Which of the following is primarily responsible for managing all financial aspects of a firm?

A) CFO

B) CEO

C) Board of directors

D) Audit committee

Answer: A

Diff: 1

Learning Objective: LO 3

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Process and Resource Management Perspectives

53) Which of the following is responsible for performing an independent audit of a firm's financial statements?

A) CFO

B) CEO

C) CPA firm

D) Audit committee

Answer: C

Diff: 2

Learning Objective: LO 3

Bloomcode: Application

AACSB: Analytic

IMA: Reporting; Internal Controls

AICPA: Reporting; Process and Resource Management Perspectives

54) How is a CPA firm insulated from being pressured by management?

A) The audit committee approves hiring, firing, and paying fees to external auditors.

B) The chairman of the board of directors approves the external auditor's fees as well as the engagement letter.

C) The IRS approves the external auditor's fees as well as the engagement letter.

D) The CPA firm is not insulated from management.

Answer: A

Diff: 1

Learning Objective: LO 4

Bloomcode: Knowledge

AACSB: Analytic

IMA: Internal Controls; Reporting

AICPA: Reporting

55) Among the following, who is typically responsible for managing a large corporation's financial function?

A) The CEO

B) The Chairman of the board

C) The Vice-President

D) The CFO

Answer: D

Diff: 1

Learning Objective: LO 3

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Process and Resource Management Perspectives

56) From the owner's perspective, which of the following should be the goal of a firm?

A) Profit maximization

B) Revenue maximization

C) Stockholders' wealth maximization

D) Tax minimization

Answer: C

Diff: 1

Learning Objective: LO 4

Bloomcode: Knowledge

AACSB: Analytic

IMA: Performance Measurement

AICPA: Strategic Perspective

57) When analysts and investors determine the value of a firm's stock, they should consider:

A) the size of the expected cash flows associated with owning the stock.

B) the timing of the cash flows.

C) the riskiness of the cash flows.

D) all of the above.

Answer: D

Diff: 1

Learning Objective: LO 4

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

58) From the owner's perspective, which of the following should be the primary focus of managers?

A) Profit maximization

B) Revenue maximization

C) COGS minimization

D) None of the above should be the primary focus.

Answer: D

Diff: 2

Learning Objective: LO 4

Bloomcode: Application

AACSB: Analytic

IMA: Corporate Finance

AICPA: Strategic Perspective

59) Which of the following would generally **NOT** increase shareholders' wealth?

A) Receiving cash flows sooner rather than later

B) Increased government regulation

C) Receiving larger cash flows

D) Rapid growth in the overall economy

Answer: B

Diff: 2

Learning Objective: LO 4

Bloomcode: Application

AACSB: Analytic

IMA: Corporate Finance

AICPA: Strategic Perspective

60) Which of the following factors or activities can be controlled by a firm's managers?

A) Capital budgeting decision

B) The level of economic activity

C) The level of market interest rates

D) Stock market conditions

Answer: A

Diff: 2

Learning Objective: LO 4

Bloomcode: Application

AACSB: Analytic

IMA: Budget Preparation

AICPA: Strategic Perspective

61) One reason for the existence of agency problems between managers and stockholders is that:

A) management is separate from ownership.

B) managers know how to manage the firm better than stockholders.

C) stockholders have unreasonable expectations about managerial performance.

D) None of the above.

Answer: A

Diff: 2

Learning Objective: LO 5

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

62) Who among the following is the "principal" in the agency relationship of a corporation?

A) A company engineer

B) The CEO of the firm

C) The stockholders

D) The board of directors

Answer: C

Diff: 2

Learning Objective: LO 5

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

63) \_\_\_\_\_\_\_\_ has (have) a legal responsibility to represent stockholders' interests.

A) The chairman of the board of directors

B) The CEO

C) The corporation's board of directors

D) All of the above.

Answer: D

Diff: 2

Learning Objective: LO 5

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Legal/Regulatory Perspective

64) An example of an agency cost is:

A) a manager turning down a value-contributing project because its risks can affect his performance.

B) a manager expensing a lavish dinner on the company expense report.

C) a manager using too little debt within the firm's capital structure because of the additional risk associated with debt.

D) Both A) and B).

Answer: B

Diff: 2

Learning Objective: LO 5

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

65) Which of the following mechanisms can help align the behavior of managers with the goals of stockholders?

A) Well-designed management compensation

B) Managerial labor market

C) An independent board of directors

D) All of the above

Answer: D

Diff: 2

Learning Objective: LO 5

Bloomcode: Application

AACSB: Communication

IMA: Business Economics

AICPA: Leadership

66) If a firm has had an agency conflict which is reflected by a poor performing stock for a long period of time, then the firm may become a target of:

A) an SEC investigation.

B) a corporate raider.

C) an IRS investigation.

D) a bankruptcy lawyer.

Answer: B

Diff: 2

Learning Objective: LO 5

Bloomcode: Application

AACSB: Analytic

IMA: Internal Controls

AICPA: Risk Assessment, Analysis and Management

67) Executives that repeatedly put their own interests before that of the firm may find that they have difficulty in finding another job after their current one. This is an example of:

A) the managerial labor market disciplining managers.

B) the market for corporate control.

C) the board of directors affecting the prospects of a manager.

D) none of the above.

Answer: A

Diff: 2

Learning Objective: LO 5

Bloomcode: Application

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

68) Who among the following is responsible for setting an agenda at meetings of the board of directors?

A) Chairperson of the board of directors

B) President

C) Nominating committee

D) Manager

Answer: A

Diff: 1

Learning Objective: LO 5

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Process and Resource Management Perspectives

69) A director who is **from outside** the firm is called:

A) an executive director.

B) an inside director.

C) an independent director.

D) an official director.

Answer: C

Diff: 1

Learning Objective: LO 5

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Process and Resource Management Perspectives

70) Which of the following is **NOT** one of the goals of the Sarbanes-Oxley Act of 2002?

A) Attain greater board independence

B) Establish compliance programs

C) Establish ethics programs

D) Dictate maximum compensation levels

Answer: D

Diff: 1

Learning Objective: LO 5

Bloomcode: Knowledge

AACSB: Analytic

IMA: FSA

AICPA: Governance Perspective

71) Which of the following is **NOT** an example of an agency cost?

A) A lavish dinner or trip

B) A missed investment opportunity

C) A cost that results from a conflict of interest between the agent and the principal

D) The cost of a new piece of equipment

Answer: D

Diff: 1

Learning Objective: LO 5

Bloomcode: Knowledge

AACSB: Analytic

IMA: Reporting

AICPA: Reporting

72) Which of the following does the audit committee have unconditional authority to do?

A) Audit the personal bank account of the CEO

B) Question any person employed by the firm

C) Audit the compensation files of firms in the same industry

D) None of the above

Answer: B

Diff: 2

Learning Objective: LO 5

Bloomcode: Application

AACSB: Analytic

IMA: FSA

AICPA: Governance Perspective

73) What is the major complaint by firms about the Sarbanes-Oxley Act of 2002?

A) The legal, maximum allowable compensation for a CEO

B) The legal requirement to disclose project information

C) The cost of compliance

D) The cost of maintaining an SEC employed officer at the firm's premises

Answer: C

Diff: 1

Learning Objective: LO 5

Bloomcode: Knowledge

AACSB: Analytic

IMA: FSA

AICPA: Governance Perspective

74) Which of the following is **NOT** an objective of the Sarbanes-Oxley Act of 2002?

A) Reducing agency costs in corporations

B) Restoring ethical conduct within the business sector

C) Improving the integrity of accounting reporting system within firms

D) Ensuring that an IRS employee is present at the firm's headquarters

Answer: D

Diff: 1

Learning Objective: LO 5

Bloomcode: Knowledge

AACSB: Ethics

IMA: Business Applications

AICPA: Governance Perspective

75) A society's ideas about what actions are right and wrong are termed as:

A) rules and policies.

B) ethics.

C) laws.

D) unwritten laws.

Answer: B

Diff: 1

Learning Objective: LO 6

Bloomcode: Knowledge

AACSB: Ethics

IMA: Business Applications

AICPA: Governance Perspective

76) The golden rule is an example of:

A) a current law.

B) a civil law.

C) an unworkable rule in financial markets.

D) an ethical norm.

Answer: D

Diff: 1

Learning Objective: LO 6

Bloomcode: Knowledge

AACSB: Ethics

IMA: Business Applications

AICPA: Governance Perspective

77) An example of an economy that had trouble in establishing a stock market and attracting foreign investment is

A) Russia.

B) France.

C) The Czech Republic.

D) Japan.

Answer: A

Diff: 1

Learning Objective: LO 6

Bloomcode: Knowledge

AACSB: Analytic

IMA: Global Business

AICPA: Global and Industry Perspectives

78) Corruption in business

A) creates inefficiencies in an economy.

B) inhibits growth in an economy.

C) slows the rate of economic growth in a country.

D) All of the above.

Answer: D

Diff: 1

Learning Objective: LO 6

Bloomcode: Knowledge

AACSB: Ethics

IMA: Business Applications

AICPA: Governance Perspective

79) Which of the following corporate officers is most likely to subject the firm to heavy financial losses when he or she is guilty of serious misconduct?

A) Marketing Manager

B) CFO

C) Chief Technology Officer

D) Chief Risk Officer

Answer: B

Diff: 2

Learning Objective: LO 6

Bloomcode: Application

AACSB: Ethics

IMA: Business Applications

AICPA: Governance Perspective

80) An officer of a firm who is also a majority owner in a competing firm will probably be subject to

A) an IRS audit.

B) a conflict of interest with his/her stockholders.

C) arbitrage profit returns to the SEC.

D) an FBI investigation.

Answer: B

Diff: 1

Learning Objective: LO 6

Bloomcode: Knowledge

AACSB: Ethics

IMA: Business Applications

AICPA: Governance Perspective

81) \_\_\_\_\_\_\_\_ occur(s) when one party in a business transaction has information that is unavailable to the other parties in the transaction.

A) Profits

B) Information asymmetry

C) Information efficiency

D) None of the above

Answer: B

Diff: 1

Learning Objective: LO 6

Bloomcode: Knowledge

AACSB: Analytic

IMA: Business Economics

AICPA: Global and Industry Perspectives

82) With regard to information, a central idea of fairness suggests that:

A) decisions should be made on a level playing field.

B) insiders should be able to trade whenever they want.

C) insiders should never be able to trade.

D) outsiders should not be allowed to trade since, by definition, they are at a disadvantage.

Answer: A

Diff: 1

Learning Objective: LO 6

Bloomcode: Knowledge

AACSB: Analytic

IMA: Decision Analysis

AICPA: Strategic Perspective

83) The legal system and market forces impose substantial costs on individuals and institutions that engage in unethical behavior. Which of the following would **NOT** be an example of these costs?

A) Financial losses

B) Legal fines

C) Agency conflicts

D) Jail time

Answer: C

Diff: 2

Learning Objective: LO 6

Bloomcode: Application

AACSB: Ethics

IMA: Business Applications

AICPA: Governance Perspective

Question type: Essay

84) Explain what should be the goal of a firm.

Answer: The goal of a firm should be to maximize stockholders' wealth, which in most cases is equivalent to maximizing the price of the shares of the firm. Maximizing the stock price, however is not the same as maximizing profits, since maximizing profits can occur while taking on too much risk, which, on the other hand can lower the value of the stockholders' investment. Maximizing profits also does not take the timing of the profits into account. Profits, moreover, should not be confused with cash. Profit does not represent the actual cash available because it deducts depreciation expense and some other noncash expenses. Maximizing stockholders' wealth is also not the same as minimizing risk as managers can also increase stock values without undertaking excessive risks.

Diff: 2

Learning Objective: LO 4

Bloomcode: Application

AACSB: Analytic

IMA: Performance Measurement

AICPA: Global and Industry Perspectives

85) Explain how agency costs might be found within a firm whose CEO owns no shares in the firm and whose compensation package is unaffected by the profits (cash or accounting profits) of the firm.

Answer: If the manager has no ownership interest in the firm, he/she has no incentive to make the profits of the firm as high as possible. In fact, he/she has a personal incentive to have the firm pay for as many personal luxuries as possible since his/her compensation package will be completely unaffected by the decision to purchase the luxuries. In a firm like that, we might expect the firm to expend a material amount of resources on items that the manager should probably pay for him/herself. Overall, manager with no shares in the firm will have a tendency to maximize his or her own wealth rather than shareholders’ wealth.

Diff: 2

Learning Objective: LO 5

Bloomcode: Application

AACSB: Ethics

IMA: Performance Measurement

AICPA: Strategic Perspective

86) You have a friend who tells you that ethics are completely unimportant in business since a number of laws have been set up for us to know the rules of the game. Comment.

Answer: Despite heavy regulation, the financial sector has a long and rich history of financial scandals. While a good many of the scandals are due to laws that have been disregarded, many of the scandals began as ethical lapses. This suggests that laws are not enough to preclude behavior that is detrimental to the well-functioning of the financial markets.

Diff: 2

Learning Objective: LO 6

Bloomcode: Application

AACSB: Ethics

IMA: Business Applications

AICPA: Decision Making