**Multiple Choice Questions (Chapter 9):**

1. Accounts receivable include:

I) trade credit;
II) consumer credit;
III) inventories

|  |  |
| --- | --- |
| A.  | I only |

|  |  |
| --- | --- |
| B.  | II only |

|  |  |
| --- | --- |
| C.  | III only |

|  |  |
| --- | --- |
| **D**.  | I and II only |

2. If a firm grants credit with terms of 3/10, net 30, the customer:

|  |  |
| --- | --- |
| A.  | must pay a penalty of 3% when payment is made in more than 10 days after the sale. |

|  |  |
| --- | --- |
| B.  | must pay a penalty for 10% when payment is made in more than 3 days after the sale. |

|  |  |
| --- | --- |
| **C**.  | receives a discount of 3% when payment is made in less than 10 days after the sale. |

|  |  |
| --- | --- |
| D.  | receives a discount of 10% when payment is made in less than 3 days after the sale. |

3. The net credit period for a company with terms of 3/10, net 60 is:

|  |  |
| --- | --- |
| **A**.  | 50 days. |

|  |  |
| --- | --- |
| B.  | 60 days. |

|  |  |
| --- | --- |
| C.  | 10 days. |

|  |  |
| --- | --- |
| D.  | 57 days. |

4. Suppose you purchase goods on terms of 1/10, net 30. Taking compounding into account, what annual rate of interest is implied by the cash discount? (Assume a year has 365 days.)

|  |  |
| --- | --- |
| A.  | 9.6% |

|  |  |
| --- | --- |
| B.  | 9.2% |

|  |  |
| --- | --- |
| **C**.  | 20.1% |

|  |  |
| --- | --- |
| D.  | 44.6% |

Annual interest rate = $\left(1+\frac{1}{99}\right)^{\frac{265}{20}}-1=20.1\%$

5. Determining the appropriate target cash balance involves assessing the trade-off between:

|  |  |
| --- | --- |
| A.  | income and diversification. |

|  |  |
| --- | --- |
| **B**.  | the benefit and cost of liquidity. |

|  |  |
| --- | --- |
| C.  | balance sheet strength and transaction needs. |

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| --- | --- |
| D.  | all of these options. |

6. The market for short-term investments is called:

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| --- | --- |
| A.  | capital market. |

|  |  |
| --- | --- |
| B.  | stock market. |

|  |  |
| --- | --- |
| C.  | bond market. |

|  |  |
| --- | --- |
| **D**.  | money market. |

7. The discount on a 91-Treasury bill is 5.65%. What is the annually compounded rate of return? (Assume a 360-day discount basis.)

|  |  |
| --- | --- |
| A.  | 5.2% |

|  |  |
| --- | --- |
| **B**.  | 5.9% |

|  |  |
| --- | --- |
| C.  | 5.6% |

|  |  |
| --- | --- |
| D.  | 5.5% |

Price = $100\left(1-0.0565(\frac{91}{360})\right)=98.57$

Quarterly return = $\frac{100-98.57}{98.57}=1.45\%$, annual return = $\left(1+0.0145\right)^{4}-1=5.9\%$

8. A repurchase agreement occurs when:

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| --- | --- |
| A.  | a company agrees to buy back its commercial paper before maturity. |

|  |  |
| --- | --- |
| B.  | a bank depositor agrees, in advance, to reinvest money in a negotiable certificate of deposit. |

|  |  |
| --- | --- |
| **C**.  | an investor buys part of a government security dealer's inventory and simultaneously agrees to sell it back. |

|  |  |
| --- | --- |
| D.  | the federal government agrees to buy T-bills. |