**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 =

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. |

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

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

|  |  |
| --- | --- |
| 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 =

Quarterly return = , annual return =

8. A repurchase agreement occurs when: 

|  |  |
| --- | --- |
| 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. |