**Multiple Choice Questions (Chapters 1 – 3):**

1. Generally, a corporation is owned by its:
I) managers; II) board of directors; III) shareholders

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

|  |  |
| --- | --- |
| B.  | II and III |

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

|  |  |
| --- | --- |
| D.  | I, II, and III |

2. As a legal entity a corporation can perform the following functions EXCEPT:
I) borrow money; II) lend money; III) sue and be sued; IV) vote

|  |  |
| --- | --- |
| A.  | I and II only |

|  |  |
| --- | --- |
| B.  | I, II, and III only |

|  |  |
| --- | --- |
| **C.** | IV only |

|  |  |
| --- | --- |
| D.  | I, II, III, and IV |

3. Which of the following assets is tangible?

|  |  |
| --- | --- |
| **A.** | Exxon-Mobil's corporate headquarters building |

|  |  |
| --- | --- |
| B.  | Apple Computer's trademark |

|  |  |
| --- | --- |
| C.  | Hewlett-Packard's most recent printer patent |

|  |  |
| --- | --- |
| D.  | Microsoft's technical expertise |

4. Which of the following types of assets are intangible?

|  |  |
| --- | --- |
| A.  | production machinery |

|  |  |
| --- | --- |
| B.  | factories |

|  |  |
| --- | --- |
| **C.** | trademarks |

|  |  |
| --- | --- |
| D.  | office equipment |

5. Which of the following is not a financial asset?

|  |  |
| --- | --- |
| A.  | common stock |

|  |  |
| --- | --- |
| B.  | bank loans |

|  |  |
| --- | --- |
| C.  | preferred stock |

|  |  |
| --- | --- |
| **D.** | buildings |

6. The financial goal of a corporation is to:

|  |  |
| --- | --- |
| A.  | maximize profits. |

|  |  |
| --- | --- |
| B.  | maximize sales. |

|  |  |
| --- | --- |
| **C.** | maximize the value of the firm for the shareholders. |

|  |  |
| --- | --- |
| D.  | maximize managers' benefits. |

7. The firm's purchase of real assets is also referred to as the:

|  |  |
| --- | --- |
| A.  | capital structure decision. |

|  |  |
| --- | --- |
| B.  | CFO decision. |

|  |  |
| --- | --- |
| C.  | financing decision. |

|  |  |
| --- | --- |
| **D.** | investment decision. |

8. The sale of financial assets by a corporation is also referred to as the:

|  |  |
| --- | --- |
| A.  | capital budgeting decision. |

|  |  |
| --- | --- |
| B.  | CFO decision. |

|  |  |
| --- | --- |
| **C.** | financing decision. |

|  |  |
| --- | --- |
| D.  | investment decision. |

9. Present value is defined as:

|  |  |
| --- | --- |
| **A.** | future cash flows discounted to the present by an appropriate discount rate. |

|  |  |
| --- | --- |
| B.  | inverse of future cash flows. |

|  |  |
| --- | --- |
| C.  | present cash flows compounded into the future. |

|  |  |
| --- | --- |
| D.  | future cash flows multiplied by the factor (1 + *r*)*t*. |

10. If the present value of a cash flow generated by an initial investment of $200,000 is $250,000, what is the NPV of the project?

|  |  |
| --- | --- |
| A.  | $250,000 |

|  |  |
| --- | --- |
| **B.** | $50,000 |

|  |  |
| --- | --- |
| C.  | $200,000 |

|  |  |
| --- | --- |
| D.  | -$50,000 |

11. Which of the following statements regarding the NPV rule and the rate of return rule is false?

|  |  |
| --- | --- |
| **A.** | Accept a project if its NPV > 0. |

|  |  |
| --- | --- |
| B.  | Reject a project if the NPV < 0. |

|  |  |
| --- | --- |
| C.  | Accept a project if its rate of return > 0. |

|  |  |
| --- | --- |
| D.  | Accept a project if its rate of return > opportunity cost of capital. |

12. The opportunity cost of capital for a risky project is:

|  |  |
| --- | --- |
| A.  | the expected rate of return on a government security having the same maturity as the project. |

|  |  |
| --- | --- |
| B.  | the expected rate of return on a well-diversified portfolio of common stocks. |

|  |  |
| --- | --- |
| **C.** | the expected rate of return on a security of similar risk as the project. |

|  |  |
| --- | --- |
| D.  | The expected rate of return on a typical bond portfolio. |

13. A perpetuity is defined as a sequence of:

|  |  |
| --- | --- |
| A.  | equal cash flows occurring at equal intervals of time for a specific number of periods. |

|  |  |
| --- | --- |
| **B.** | equal cash flows occurring at equal intervals of time forever. |

|  |  |
| --- | --- |
| C.  | unequal cash flows occurring at equal intervals of time forever. |

|  |  |
| --- | --- |
| D.  | unequal cash flows occurring at equal intervals of time for a specific number of periods. |

14. You would like to have enough money saved after your retirement such that you and your heirs can receive $100,000 per year in perpetuity. How much would you need to have saved at the time of your retirement in order to achieve this goal? (Assume that the perpetuity payments start one year after the date of your retirement. The annual interest rate is 12.5%.)

|  |  |
| --- | --- |
| A.  | $1,000,000 |

|  |  |
| --- | --- |
| B.  | $10,000,000 |

|  |  |
| --- | --- |
| **C.** | $800,000 |

|  |  |
| --- | --- |
| D.  | $1,125,000 |

*PV* = 100,000 / 12.5% = 800,000.

15. An annuity is defined as a set of:

|  |  |
| --- | --- |
| **A.** | equal cash flows occurring at equal intervals of time for a specified period. |

|  |  |
| --- | --- |
| B.  | equal cash flows occurring at equal intervals of time forever. |

|  |  |
| --- | --- |
| C.  | unequal cash flows occurring at equal intervals of time forever. |

|  |  |
| --- | --- |
| D.  | unequal cash flows occurring at equal intervals of time for a specified period. |

16. You are considering investing in a retirement fund that requires you to deposit $5,000 per year, and you want to know how much the fund will be worth when you retire. What financial technique should you use to calculate this value?

|  |  |
| --- | --- |
| A.  | Future value of a single payment |

|  |  |
| --- | --- |
| **B.** | Future value of an annuity |

|  |  |
| --- | --- |
| C.  | Present value of an annuity |

|  |  |
| --- | --- |
| D.  | Present value of a perpetuity |