

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) What is the bid-ask spread? 1) \_\_\_\_\_
- A) all of the costs and fees that a stock exchange charges in order to process a transaction
  - B) the difference in price available for an immediate sale of a share and the immediate purchase of that share
  - C) the rise or fall in the value of a share between the time it is acquired by an investor and sold by that investor
  - D) the difference in the selling price of a share between different exchanges

Answer: B

- Explanation:
- A)
  - B)
  - C)
  - D)

- 2) How do the shareholders of most corporations exercise their control of that corporation? 2) \_\_\_\_\_
- A) by voting on issues that concern them
  - B) by electing members of a board of directors
  - C) by providing oversight of the day-to-day running of the corporation
  - D) by vetting the decisions of the board of directors

Answer: B

- Explanation:
- A)
  - B)
  - C)
  - D)

- 3) Which of the stock markets listed below is the smallest, as judged by trading volume? 3) \_\_\_\_\_
- A) NYSE Euronext (US)
  - B) Australian Stock Exchange
  - C) Tokyo Stock Exchange
  - D) London Stock Exchange

Answer: B

- Explanation:
- A)
  - B)
  - C)
  - D)

- 4) What is the major advantage corporations have over other business entities? 4) \_\_\_\_\_
- A) A corporation's shares can be freely traded among its shareholders.
  - B) It is easier for a corporation to raise capital than other forms of businesses.
  - C) A corporation is treated as a separate legal entity for tax and legal purposes.
  - D) All of the above are advantages that a corporation has over other business forms.

Answer: D

- Explanation:
- A)
  - B)
  - C)
  - D)

5) Which of the following organisation forms has the most revenue? 5) \_\_\_\_\_  
A) partnership B) sole trader  
C) corporation D) limited partnership

Answer: C  
Explanation: A)  
B)  
C)  
D)

6) A factory owner wants his workers to produce as many widgets as they can, so he pays his workers based on how many widgets they produce. However, in order to make sure that the workers do not rush and produce a large number of poorly made widgets, he checks the widgets at random at various stages of their manufacture. If a defect is found in a widget, the pay of the entire section of the factory responsible for that defect is docked. How is this factory owner seeking to solve the agency problem in this case? 6) \_\_\_\_\_  
A) by supplying incentives so the agents act in the way the principal desires  
B) by making the agents into principals themselves  
C) by ensuring that all workers cooperate to maximise the gains of their section  
D) by maximising the information that the principal obtains about the behavior of the agents

Answer: A  
Explanation: A)  
B)  
C)  
D)

7) In most corporations, to whom does the chief financial officer report? 7) \_\_\_\_\_  
A) the controller B) the shareholders  
C) the chief executive officer D) the board of directors

Answer: C  
Explanation: A)  
B)  
C)  
D)

8) Which of the following is typically the major factor in limiting the growth of a sole trader? 8) \_\_\_\_\_  
A) Investors have a great deal of control over the day-to-day running of the firm, leading to confusion when conflicts in direction arise.  
B) The amount of money that can be raised by the firm is limited by the fact that the single owner must make good on all debts.  
C) The organisation of such firms tends to become extremely complicated over time.  
D) It is extremely difficult to transfer control of such a firm to a new owner if the present owner dies or wishes to sell the firm.

Answer: B  
Explanation: A)  
B)  
C)  
D)

9) Which of the following would be more typically the responsibility of a controller rather than a treasurer? 9) \_\_\_\_\_

A) overseeing accounting and tax functions                      B) making investment decisions  
 C) capital budgeting                                                      D) managing credit

Answer: A  
 Explanation: A)  
                   B)  
                   C)  
                   D)

Use the figure for the question(s) below.

**BHP BILLITON (ASX: BHP.AX)**

Last Trade:	41.91	Day's Range:	41.54–41.97
Trade Time:	9:54PM ET	52wk Range:	28.980–47.700
Change:	↑ 0.26 (0.62%)	Volume:	3,682,073
Prev Close:	41.650	Avg Vol (3m):	16,728,200
Open:	41.590	Market Cap:	N/A
Bid:	41.91	P/E (ttm):	N/A
Ask:	41.93	EPS (ttm):	N/A
1y Target Est:	N/A	Div & Yield:	N/A (N/A)

10) Using the above information, how much would you pay for a share of BHP Billiton stock? 10) \_\_\_\_\_

A) \$41.65                      B) \$41.93                      C) \$41.91                      D) \$41.59

Answer: B  
 Explanation: A)  
                   B)  
                   C)  
                   D)

11) A sole trader is a type of firm owned by 11) \_\_\_\_\_

A) two or more persons.                                              B) bankers.  
 C) shareholders.                                                        D) one person.

Answer: D  
 Explanation: A)  
                   B)  
                   C)  
                   D)

12) You are a shareholder in a corporation which has announced a profit of \$6 per share, of which it retains \$2 for reinvestment and distributes the rest as dividend payments. A franking credit of \$1.71 per share attaches to the dividend. Given that the personal tax rate is 35%, how much tax must you pay per share? 12) \_\_\_\_\_

- A) \$0.28                                      B) \$3.90                                      C) \$0                                      D) \$2.00

Answer: A

Explanation: A) Taxable income = dividend plus franking credit = \$4 + \$1.71 = \$5.71. Tax = \$5.71 × 0.35 = \$1.99 less franking credit of \$1.71 leaves net tax of \$0.28 per share  
B)  
C)  
D)

13) The financial manager of a well-regarded book publishing firm wishes to buy a small Internet publishing company to provide an avenue for sale of its materials online. In order to raise the funds to make this purchase, the financial manager decides to sell more shares in the company. How is the financial manager raising funds in this case? 13) \_\_\_\_\_

- A) by increasing the debt burden carried by the company  
B) by increasing the value of shares held by the existing owners of the company  
C) by raising the company's equity by encouraging new owners to take a stake in the company  
D) by decreasing the ratio of equity to debt held by the company

Answer: C

Explanation: A)  
B)  
C)  
D)

14) What is the most common type of firm in the world? 14) \_\_\_\_\_

- A) corporations                                      B) limited partnerships  
C) sole traders                                      D) partnerships

Answer: C

Explanation: A)  
B)  
C)  
D)

15) What is the most important duty of a financial manager? 15) \_\_\_\_\_

- A) to manage working capital  
B) to make investment decisions  
C) to decide how to pay for investments  
D) to ensure that the firm has enough cash on hand to meet its commitments at any given time

Answer: B

Explanation: A)  
B)  
C)  
D)

- 16) Why is a stock exchange like NASDAQ considered a secondary market? 16) \_\_\_\_\_
- A) Shares sold on it are exchanged between investors without any involvement of the issuing corporation.
  - B) NASDAQ is called a secondary market because NYSE is considered a primary market.
  - C) The exchange has rules that attempt to ensure that bid and ask prices do not get too far apart
  - D) It trades the second largest volume of shares in the world.

Answer: A

- Explanation: A)  
B)  
C)  
D)

- 17) Which of the following is a measure of the aggregate price level of collections of pre-selected shares? 17) \_\_\_\_\_
- A) NYSE                      B) Euronext                      C) S&P/ASX 200                      D) NASDAQ

Answer: C

- Explanation: A)  
B)  
C)  
D)

- 18) A company that produces racing motorbikes has several models that sell well within the motorcycle racing community and which are very profitable for the company. Despite having a profitable product, why must this company take care to ensure that it has sufficient cash on hand to meet its obligations? 18) \_\_\_\_\_
- A) New models will require a lot of money to develop and bring to market before they generate any revenue.
  - B) Profits from the sales of popular models will be lost when returned to the shareholders in the form of dividends.
  - C) The company will have built up debts which must be repaid in order to bring the current models to market.
  - D) Equity must be raised to finance the development of new models to replace the existing models.

Answer: A

- Explanation: A)  
B)  
C)  
D)

- 19) Which of the following best describes why the Valuation Principle is a key concept in making financial decisions? 19) \_\_\_\_\_
- A) It gives a good indication of the net worth of a person, item, or company and can be used to estimate any changes in that net worth.
  - B) It shows how to make the costs and benefits of a decision comparable so that we can weigh them properly.
  - C) It shows how to assign monetary value to intangibles such as good health and well-being.
  - D) It allows fixed assets and liquid assets to be valued correctly.

Answer: B

- Explanation: A)  
B)  
C)  
D)

- 20) A corporate raider gains a controlling fraction of the shares of a poorly managed company and replaces the board of directors. How does the corporate raider hope to make a profit in this case? 20) \_\_\_\_\_
- A) by removing the employees' expectations of the continued poor performance of the company
  - B) by motivating the board of directors and other stakeholders in the company to make difficult short-term decisions that will increase the long-term viability of the company
  - C) by the sale of the assets held by the company that hold most of its value
  - D) by the rise in the value of the shares held by the raider when the new board of directors is judged to be superior to the ousted board of directors

Answer: D

Explanation: A)  
B)  
C)  
D)

- 21) In which of the following relationships is an agency problem LEAST likely to arise? 21) \_\_\_\_\_
- A) the relationship between high-level military officers and the soldiers who serve under them regarding the willingness of the soldiery to take risks
  - B) the relationship between a hire-car company and the persons who hire that company's cars regarding the treatment of those cars
  - C) the relationship between a restaurateur and the suppliers of produce to that restaurant regarding the freshness of the produce supplied
  - D) the relationship between a driver and the passengers in a car regarding the safe driving of that car

Answer: D

Explanation: A)  
B)  
C)  
D)

- 22) ValiantCorp is a corporation that earned \$3 per share before it paid any taxes. ValiantCorp retained \$1 of after tax earnings for reinvestment, and distributed what remained in dividend payments. If the corporate tax rate was 30% and dividend earnings were taxed at 12.5%, what was the value of the dividend earnings received after tax by a holder of 100,000 shares of ValiantCorp? 22) \_\_\_\_\_
- A) \$104,750                      B) \$96,250                      C) \$110,000                      D) \$112,500

Answer: B

Explanation: A)  
B) Corporate tax paid on \$3 earnings =  $\$3 \times 0.3 = 0.9$ ; earnings after tax =  $3 - 0.9 = \$2.1$ ; earnings distributed as dividends =  $\$2.1 - \$1 = \$1.1$ ; taxes paid on dividends by a shareholder =  $1.1 \times 0.125 = 0.1375$ ; after-tax dividends per share =  $1.1 - 0.1375 = \$0.9625$ ; hence a holder of 100,000 shares receives  $0.9625 \times 100,000 = \$96,250$   
C)  
D)

- 23) A 'public' company 23) \_\_\_\_\_  
A) must have its shares traded on a stock exchange.  
B) is essentially the same as a 'private' company.  
C) must appoint an auditor.  
D) is never a 'reporting entity.'

Answer: C

Explanation: A)  
B)  
C)  
D)

- 24) Why in general do financial managers make financial decisions in a corporation, rather than the owners making these decisions themselves? 24) \_\_\_\_\_  
A) There are often many owners, and they can often change as they buy and sell shares.  
B) It is best for the control of the finances of a corporation to be in the hands of a disinterested third party.  
C) The interests of the various owners may conflict with each other.  
D) The owners may not be Australian citizens or residents.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 25) Why is it in general difficult to determine the market price of a private corporation's shares at any point in time? 25) \_\_\_\_\_  
A) The price of its shares is fixed by the owners.  
B) It has a limited number of owners.  
C) There is no organised market for its shares.  
D) It is difficult to obtain enough information to accurately value such a company.

Answer: C

Explanation: A)  
B)  
C)  
D)

- 26) In Australia, dividend imputation may reduce the tax payable by 26) \_\_\_\_\_  
A) a corporation. B) a resident shareholder.  
C) a non-resident shareholder. D) both B & C

Answer: B

Explanation: A)  
B)  
C)  
D)

- 27) Investments by wealthy individuals and endowments is a major source of money for each of the following EXCEPT: 27) \_\_\_\_\_
- A) hedge funds
  - B) managed funds
  - C) private equity funds
  - D) venture capital funds

Answer: B

Explanation: A)  
B)  
C)  
D)

- 28) Which of the following is NOT an advantage of a sole trader? 28) \_\_\_\_\_
- A) limited liability
  - B) single taxation
  - C) ease of setup
  - D) no separation of ownership and control

Answer: A

Explanation: A)  
B)  
C)  
D)

- 29) Helen owns 12.5% of the stock of the Median Corporation. If Median makes a dividend payment of \$25,000,000 paid proportionally to its shareholders, how much of this amount would Helen receive, disregarding tax? 29) \_\_\_\_\_
- A) \$2,000,000
  - B) \$3,125,000
  - C) \$12,500,000
  - D) \$4,150,000

Answer: B

Explanation: A)  
B) Helen will receive 12.5% of the dividend payment proportional to her ownership:  
 $0.125 \times 25,000,000 = \$3,125,000$   
C)  
D)



Use the figure for the question(s) below.

TOYOTA INDUSTRIES (Frankfurt TAH.F)

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Last Trade:	20.50	Day's Range:	20.50–20.50
Trade Time:	3:03AM ET	52wk Range:	20.42–30.80
Change:	↑ 0.08 (0.39%)	Volume:	800
Prev Close:	20.42	Avg Vol (3m):	14.1639
Open:	20.50	Market Cap:	N/A
Bid:	20.37	P/E (ttm):	N/A
Ask:	21.28	EPS (ttm):	N/A
1y Target Est:	N/A	Div & Yield:	N/A (N/A)

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30) Based on the information shown above, how much would you receive from selling 2000 shares of Toyota Industries? 30) \_\_\_\_\_

- A) €40,740                      B) €42,560                      C) €41,000                      D) €40,840

Answer: A

- Explanation: A)  
B)  
C)  
D)

31) What is the maximum number of non-employee shareholders a 'private' corporation may have? 31) \_\_\_\_\_

- A) 25                              B) 15                              C) 50                              D) no limit

Answer: C

- Explanation: A)  
B)  
C)  
D)

32) What is the major way in which the roles and obligations of the owners of a corporation differ from the roles and obligations of limited partners in a limited partnership? 32) \_\_\_\_\_

- A) There is no separation between the company and its owners in a corporation  
B) The owners of a corporation have personal obligation for debts incurred by the company.  
C) The owners of a corporation can take an active role in running the company.  
D) The owners of a corporation can withdraw from the company without the company being dissolved.

Answer: C

- Explanation: A)  
B)  
C)  
D)

- 33) Which of the following are major duties of a financial manager? 33) \_\_\_\_\_
- I. To make investment decisions
  - II. To make financing decisions
  - III. To manage cash flow from operating activities
- A) I only                      B) I and II only                      C) I and III only                      D) all of the above

Answer: D

- Explanation: A)  
B)  
C)  
D)

- 34) Which of the following is NOT a function of the board of directors? 34) \_\_\_\_\_
- A) determining how top executives should be compensated
  - B) day-to-day running of the company
  - C) answering to shareholders of the company
  - D) monitoring the performance of the company

Answer: B

- Explanation: A)  
B)  
C)  
D)

- 35) In a limited partnership, limited partners may 35) \_\_\_\_\_
- A) have private property seized to pay off the firm's outstanding debts.
  - B) trigger a dissolution of the firm if they withdraw their participation.
  - C) make managerial decisions for the firm.
  - D) none of the above

Answer: D

- Explanation: A)  
B)  
C)  
D)

- 36) What is the process of double taxation for the shareholders of a corporation in a 'classical' tax system? 36) \_\_\_\_\_
- A) The owners of a corporation are taxed when they receive dividend payments and when they make a profit from the sale of shares.
  - B) Their shares are taxed when they are both bought and sold.
  - C) The corporation must pay taxes on any profits it makes, and the capital raised by the sale of shares is also subject to taxation.
  - D) The corporation is taxed on the profits it makes, and the owners are taxed when this profit is distributed to them.

Answer: D

- Explanation: A)  
B)  
C)  
D)

- 37) What is the most common way that agency problems are addressed in most corporations? 37) \_\_\_\_\_
- A) by minimising the number of decisions that a manager makes where there is a conflict between the manager's interests and those of the shareholders
  - B) by prosecuting managers who have been found to have illegally used company monies for their own benefit
  - C) by terminating the employment of employees who are found to have put their own interests above that of the company's
  - D) by using disinterested outside bodies to adjudicate between managers and shareholders when such conflicts arise

Answer: A

Explanation: A)  
B)  
C)  
D)

- 38) Put the following steps of the financial cycle in the correct order: 38) \_\_\_\_\_
- I. Money flows to companies who use it to fund growth through new products
  - II. People invest and save their money
  - III. Money flows back to savers and investors
- A) II, III, I                      B) III, II, I                      C) II, I, III                      D) I, II, III

Answer: C

Explanation: A)  
B)  
C)  
D)

- 39) Joe is a general partner in a limited partnership firm, while Jane is a limited partner in that same firm. Which of the following statements regarding their respective relationships to the firm are correct? 39) \_\_\_\_\_
- A) Jane's liability for the firm's debts consists solely of her investment in the firm.
  - B) Withdrawal of Jane from the partnership will dissolve that partnership.
  - C) Joe has no management authority within the partnership.
  - D) Jane is legally involved in the managerial decision making of the firm.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 40) A typical 'public' company has many types of shareholders, from individuals holding a few shares, to large institutions that hold very large numbers of shares. How does a financial manager ensure that the priorities and concerns of such disparate shareholders are met? 40) \_\_\_\_\_
- A) The financial manager should seek to make investments that do not harm the interests of the shareholders.
  - B) The financial manager should consider the interests and concerns of large shareholders a priority, so the needs of those who hold a controlling interest in the company are met.
  - C) The decisions taken by the financial manager should be solely influenced by the benefit to the company since, by maximising its fitness, he or she will also maximise the benefits of that company to the shareholders.
  - D) In general, all shareholders will agree that they are better off if the financial manager works to maximise the value of their investment.

Answer: D

Explanation: A)  
B)  
C)  
D)

- 41) Why is it possible for a corporation to enter into contracts, acquire assets, incur obligations, and enjoy protection against the seizure of its property? 41) \_\_\_\_\_
- A) Its owners are liable for any obligations it enters into.
  - B) It is a legally defined, artificial entity that is separate from its owners.
  - C) The number of owners, and hence the spread of risk among these owners, is not limited.
  - D) The state in which the corporation is incorporated provides safeguards against any wrongdoing by the corporation.

Answer: B

Explanation: A)  
B)  
C)  
D)

- 42) Which of the following types of firms do NOT have limited liability? 42) \_\_\_\_\_
- A) corporations
  - B) limited partnerships
  - C) sole traders
  - D) none of the above

Answer: C

Explanation: A)  
B)  
C)  
D)

- 43) Why is the share price of a company an indication of the performance of that company's senior managers? 43) \_\_\_\_\_
- A) Well-run companies are invariably highly profitable, which leads to a higher share price.
  - B) Investors who can see that a company is well-run will hold on to their shares, even if the company faces temporary setbacks, since they know that the share price will likely rise again.
  - C) Larger companies tend to be better run and so have higher share prices.
  - D) In general, people want to invest in a well-managed corporation, which will drive up the price of its shares.

Answer: D

Explanation: A)  
B)  
C)  
D)

- 44) Stella places a market order with her broker to buy 1000 shares of Telstra Corp. The broker buys 1000 shares at \$15.40 each, and sells them to Stella at \$15.55 each. He also charges a commission of \$12.00. What is the bid-ask spread in this case? 44) \_\_\_\_\_
- A) \$15,562                      B) \$150                      C) \$172                      D) \$15,400

Answer: B

Explanation: A)  
B)  $(15.55 - 15.40) \times 1000 = \$150$   
C)  
D)

- 45) Which of the following is NOT a reason why financial managers must take great care when making investment decisions? 45) \_\_\_\_\_
- A) These investment decisions determine whether the firm will add value for its owners.
  - B) These investment decisions typically involve substantial costs which must be carefully weighed against their potential benefits.
  - C) These investment decisions determine the corporation's mix of debt and equity.
  - D) These investments determine the long-term directions in which the company may move.

Answer: C

Explanation: A)  
B)  
C)  
D)

- 46) Big Business Limited distributes a fully franked dividend to its shareholders. Which of the following statements best describes the outcome for shareholders? 46) \_\_\_\_\_
- A) Shareholders must include their share of the profit from which the dividend is paid in their personal income tax return, but this amount is disregarded for their personal tax purposes.
  - B) The company pays tax on the profits from which the dividend is paid.
  - C) The profits from which the dividend is paid are not taxed at the corporate level.
  - D) both B & C

Answer: B

Explanation: A)  
B)  
C)  
D)

Use the figure for the question(s) below.

STRIDER

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Last Trade:	421.00	Day's Range:	420.75–434.00
Trade Time:	11:35AM ET	52wk Range:	354.00–592.00
Change:	↓12.00 (2.77%)	Volume:	28,201,756
Prev Close:	433.00	Avg Vol (3m):	48,885,800
Open:	427.00	Market Cap:	N/A
Bid:	420.75	P/E (ttm):	N/A
Ask:	421.25	EPS (ttm):	N/A
1y Target Est:	N/A	Div & Yield:	N/A (N/A)

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- 47) How much money would a stock exchange make from buying and selling 500 shares of Strider under the conditions shown above? 47) \_\_\_\_\_
- A) \$210,375                      B) \$250                                      C) \$5875                                      D) \$3000

Answer: B

Explanation: A)  
B)  $(421.25 - 420.75) \times 500 = \$250$   
C)  
D)

- 48) Which of the following is NOT a role of financial institutions? 48) \_\_\_\_\_
- A) moving funds though time                                      B) printing money for borrowers  
C) spreading out risk-bearing                                      D) moving funds from savers to borrowers

Answer: B

Explanation: A)  
B)  
C)  
D)

- 49) In revenue terms, which type of firm is the dominant business form all over the world? 49) \_\_\_\_\_
- A) limited partnerships                                      B) corporations  
C) sole traders                                                      D) partnerships

Answer: B

Explanation: A)  
B)  
C)  
D)

50) A \_\_\_\_\_ is when a rich individual or organisation purchases a large proportion of the shares of a poorly performing firm and in doing so gets enough votes to replace the board of directors and the CEO. 50) \_\_\_\_\_

- A) shareholder action
- B) leveraged buyout
- C) hostile takeover
- D) shareholder proposal

Answer: C

- Explanation:
- A)
  - B)
  - C)
  - D)

Use the figure for the question(s) below.

WASHINGTON POST CO B (NYSE: WPO)

Last Trade:	677.62	Day's Range:	676.05–683.00
Trade Time:	3:01PM ET	52wk Range:	625.00–885.23
Change:	↓ 0.88 (0.13%)	Volume:	12,473
Prev Close:	678.50	Avg Vol (3m):	24,093.7
Open:	679.00	Market Cap:	6.45B
Bid:	677.62	P/E (ttm):	22.45
Ask:	677.64	EPS (ttm):	30.19
1y Target Est:	855.00	Div & Yield:	8.60 (1.30)

51) Using the above information, how much would you receive if you sold a share of Washington Post? 51) \_\_\_\_\_

A) \$677.62                      B) \$678.50                      C) \$683.00                      D) \$677.64

Answer: A

- Explanation:
- A)
  - B)
  - C)
  - D)

52) Which of the following would be best considered to be an agency problem in the behaviour of the following financial managers? 52) \_\_\_\_\_

- A) Michael chooses to enhance his firm's reputation at some cost to its shareholders by sponsoring a team of athletes for the Special Olympics.
- B) Bill chooses to pursue a risky investment for the company's funds, because his compensation will substantially rise if it succeeds.
- C) James ignores an opportunity for his company to invest in a new drug to fight Alzheimer's disease, judging the drug's chances of succeeding as low.
- D) Sue instructs her staff to skip safety inspections in one of the company's factories, knowing that it will likely fail the inspection and incur significant costs to fix.

Answer: B

- Explanation:
- A)
  - B)
  - C)
  - D)

- 53) Which of the following must be true for an asset to be considered liquid? 53) \_\_\_\_\_
- A) It can be bought and sold at an organised stock market or bourse.
  - B) It is offered for sale on both primary and secondary markets.
  - C) It can be easily bought and sold, and the selling price is very close to the buying price at a given point in time.
  - D) It pays regular dividends.

Answer: C

- Explanation:
- A)
  - B)
  - C)
  - D)

Use the figure for the question(s) below.

**PERNEX INC**

Last Trade:	14.15	Day's Range:	14.02–14.45
Trade Time:	2:05PM ET	52wk Range:	8.40–19.93
Change:	↓ 0.07 (0.49%)	Volume:	9,501,729
Prev Close:	14.22	Avg Vol (3m):	14,177,600
Open:	14.34	Market Cap:	9.59B
Bid:	14.15	P/E (ttm):	38.87
Ask:	14.18	EPS (ttm):	0.36
1y Target Est:	20.50	Div & Yield:	N/A (N/A)

- 54) What is the bid-ask spread for Pernex Inc? 54) \_\_\_\_\_
- A) 6 cents
  - B) 12 cents
  - C) 1 cent
  - D) 3 cents
- 55) Whose interests should a financial manager consider paramount when making a decision? 55) \_\_\_\_\_
- A) the senior management and associated colleagues at the executive level within the company
  - B) the public who consume the company's goods and services
  - C) the shareholders who have risked their money to become owners of the company
  - D) the employees and associated stakeholders who are employed by the company

Answer: C

- Explanation:
- A)
  - B)
  - C)
  - D)



56) On 19 August 2004, Google IPO offered 19,605,052 shares at a price of U.S. \$85 per share, which were sold in an online auction in a bid to make the shares more widely available. Which of the following statements best describes why these are considered a primary market transaction?

56) \_\_\_\_\_

- A) The transaction was between the corporation and investors.
- B) The shares were the first to be publicly issued by Google.
- C) Google was at the time a recently founded company seeking capital with which to expand.
- D) Shares of Google from this time onward could be traded between investors on a stock exchange.

Answer: A

- Explanation: A)  
 B)  
 C)  
 D)

Use the figure for the question(s) below.

**GOLD SEAM CORP**

Last Trade:	91.11	Day's Range:	91.06–91.98
Trade Time:	4:00PM ET	52wk Range:	63.39–100.44
Change:	↓ 0.19 (0.21%)	Volume:	4,705,410
Prev Close:	91.30	Avg Vol (3m):	12,703,300
Open:	91.32	YTD Return (Mkt) <sup>2</sup> :	9.64%
Bid:	91.35 × 1100	Net Assets <sup>2</sup> :	19.26B
Ask:	91.65 × 100	P/E (ttm) <sup>2</sup> :	N/A
NAV <sup>1</sup> :	91.56	Yield (ttm) <sup>2</sup> :	NaN%

57) Based on the information shown above, what would it cost to buy 1000 shares of Gold Seam Corp?

57) \_\_\_\_\_

- A) \$91,320
- B) \$91,110
- C) \$91,300
- D) \$91,650

Answer: D

- Explanation: A)  
 B)  
 C)  
 D)

58) A company's board of directors chooses to provide a comprehensive health care plan for the families of all employees, despite the large cost. They argue that this will not only increase the number of employees who stay with the firm, and thus reduce some costs involved in employee turnover, but also increase the employees' diligence and industry. What general principle is being argued by the board of directors?

58) \_\_\_\_\_

- A) Ethical decisions should be assessed on their moral value, not on their value in dollars and cents.
- B) Some activities that decrease shareholders' wealth may have intangible benefits which increase the strength of the company overall.
- C) In a conflict between stakeholders in a company, the most important stakeholder is not always the shareholders.
- D) When a conflict of interest arises between shareholders and other stakeholders, in general, the correct solution is the one that creates the greatest good for the greatest number of stakeholders.

Answer: B

- Explanation: A)  
B)  
C)  
D)

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

59) What is the principal guiding factor for the financial manager?

59) \_\_\_\_\_

Answer: Maximising shareholder wealth is the paramount guiding factor for the financial manager.

Explanation:

60) What is the term for the applicable price that I will pay, if I have to buy a share?

60) \_\_\_\_\_

Answer: The buyer of a share pays the ask price when he buys the share.

Explanation:

61) What are the main differences between a partnership and sole trader?

61) \_\_\_\_\_

Answer: While a sole trader has the same identity as its single owner, a partnership of general partners has the same identity as its partners. Each general partner is responsible for the decisions taken by that partner as well as any other general partner.

Explanation:

62) How is a corporation different from most of the other forms of business organisations?

62) \_\_\_\_\_

Answer: A corporation has a separate legal identity from those of its owners. This separation gives the owners limited liability for the actions of the corporation. In Australia, the 'imputation system' of taxation may relieve double taxation, which is the main disadvantage of a corporation under a 'classical' tax system.

Explanation:

63) What are the terms for the two types of prices quoted for a share on an exchange?

63) \_\_\_\_\_

Answer: The two quotes associated with a share quoted on the exchange are bid price and ask price.

Explanation:

- 64) What is the term for the applicable price that the seller gets when he sells a share on an exchange? 64) \_\_\_\_\_  
 Answer: The seller gets the bid price when he sells a share on an exchange.  
 Explanation:
- 65) Explain some of the measures taken to reduce the agency problem. 65) \_\_\_\_\_  
 Answer: The agency problem can be reduced by taking measures that align the managers' interests with those of the shareholders. For example, incentive-based compensation, such as employee share options, helps align the interests of these two constituents.  
 Explanation:
- 66) What are the main differences between the NYSE and ASX stock markets? 66) \_\_\_\_\_  
 Answer: The NYSE has a physical location, a geographical address where traders gather to trade, but ASX is an electronic market. Moreover, while the NYSE has one specialist in each stock, ASX has multiple market makers serving the functions of both matching buyers and sellers and trading on their own account.  
 Explanation:
- 67) What is the general relation of the two types of prices quoted for a share on an exchange? 67) \_\_\_\_\_  
 Answer: The two prices are bid price and ask price. The ask price is higher than the bid price to deter a buyer from buying a stock and selling it back immediately, assuming everything else remains unchanged.  
 Explanation:
- 68) Briefly discuss the issues in the agency problem. 68) \_\_\_\_\_  
 Answer: The agency problem arises out of the principal-agent relationship existing between the shareholders and managers of a corporation. Although managers are required to put the shareholders' interests ahead of their own, in practice they tend to put their own interest ahead of the shareholders' interests.  
 Explanation:

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 69) The fact that corporations' shares are easily traded within the market has a net effect of acting as a disincentive for managers to favour the interests of shareholders over their own interests. 69) \_\_\_\_\_  
 Answer: True  False   
 Explanation:
- 70) Raising new capital by issuing bonds is an example of a commercial banking activity. 70) \_\_\_\_\_  
 Answer: True  False   
 Explanation:

1.1 WHY STUDY FINANCE

- 71) The Valuation Principle shows how to make the costs and benefits of a decision comparable so that we can evaluate them properly. 71) \_\_\_\_\_  
 Answer:  True  False  
 Explanation:

#### 1.4 The Financial Manager's Place in the Corporation

72) In most corporations the owners exercise direct control of the corporation. 72) \_\_\_\_\_

Answer: True  False

Explanation:

73) If a broker will buy a company share from you at \$3.85 and sell it to you at \$3.87, the ask price would be \$3.85. 73) \_\_\_\_\_

Answer: True  False

Explanation:

#### 1.3 The Financial Manager

74) The principal goal of the financial manager is to maximise the wealth of the shareholders. 74) \_\_\_\_\_

Answer:  True  False

Explanation:

75) It is generally not the duty of financial managers to ensure that a firm has the cash it needs for day-to-day transactions. 75) \_\_\_\_\_

Answer: True  False

Explanation:

76) Financial decisions require that you weigh alternatives in strictly monetary terms. 76) \_\_\_\_\_

Answer: True  False

Explanation:

77) Partnerships are the most common type of business firm in the world. 77) \_\_\_\_\_

Answer: True  False

Explanation:

78) Corporations have come to dominate the business world through their ability to raise large amounts of capital by sale of ownership shares to anonymous outside investors. 78) \_\_\_\_\_

Answer:  True  False

Explanation:

79) Stock markets provide liquidity for a firm's shares. 79) \_\_\_\_\_

Answer:  True  False

Explanation:

#### 1.5 The Stock Market

80) The shares of private corporations are traded on a stock market. 80) \_\_\_\_\_

Answer: True  False

Explanation:

Answer Key  
Testname: C1

- 1) B
- 2) B
- 3) B
- 4) D
- 5) C
- 6) A
- 7) C
- 8) B
- 9) A
- 10) B
- 11) D
- 12) A
- 13) C
- 14) C
- 15) B
- 16) A
- 17) C
- 18) A
- 19) B
- 20) D
- 21) D
- 22) B
- 23) C
- 24) A
- 25) C
- 26) B
- 27) B
- 28) A
- 29) B
- 30) A
- 31) C
- 32) C
- 33) D
- 34) B
- 35) D
- 36) D
- 37) A
- 38) C
- 39) A
- 40) D
- 41) B
- 42) C
- 43) D
- 44) B
- 45) C
- 46) B
- 47) B
- 48) B
- 49) B
- 50) C

Answer Key  
Testname: C1

- 51) A
- 52) B
- 53) C
- 54) D
- 55) C
- 56) A
- 57) D
- 58) B
- 59) Maximising shareholder wealth is the paramount guiding factor for the financial manager.
- 60) The buyer of a share pays the ask price when he buys the share.
- 61) While a sole trader has the same identity as its single owner, a partnership of general partners has the same identity as its partners. Each general partner is responsible for the decisions taken by that partner as well as any other general partner.
- 62) A corporation has a separate legal identity from those of its owners. This separation gives the owners limited liability for the actions of the corporation. In Australia, the 'imputation system' of taxation may relieve double taxation, which is the main disadvantage of a corporation under a 'classical' tax system.
- 63) The two quotes associated with a share quoted on the exchange are bid price and ask price.
- 64) The seller gets the bid price when he sells a share on an exchange.
- 65) The agency problem can be reduced by taking measures that align the managers' interests with those of the shareholders. For example, incentive-based compensation, such as employee share options, helps align the interests of these two constituents.
- 66) The NYSE has a physical location, a geographical address where traders gather to trade, but ASX is an electronic market. Moreover, while the NYSE has one specialist in each stock, ASX has multiple market makers serving the functions of both matching buyers and sellers and trading on their own account.
- 67) The two prices are bid price and ask price. The ask price is higher than the bid price to deter a buyer from buying a stock and selling it back immediately, assuming everything else remains unchanged.
- 68) The agency problem arises out of the principal-agent relationship existing between the shareholders and managers of a corporation. Although managers are required to put the shareholders' interests ahead of their own, in practice they tend to put their own interest ahead of the shareholders' interests.
- 69) FALSE
- 70) FALSE
- 71) TRUE
- 72) FALSE
- 73) FALSE
- 74) TRUE
- 75) FALSE
- 76) FALSE
- 77) FALSE
- 78) TRUE
- 79) TRUE
- 80) FALSE