Foundations Of Financial Management (Canadian) 12th edition Block Test Bank

SKU: 9781260326918-TEST-BANK

Foundations Of Financial Management 12th Edition by Block Ch01

Correct answers are located in the second half of this document.

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

1) As finance emerged as an analytical, decision-oriented discipline, the initial emphasis was placed on capital acquisitions.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi
Topic : 01-02 Evolution of Finance as a Discipline

2) Inflation is assumed to be a temporary problem that does not affect financial decisions.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi
Topic : 01-01 The Field of Finance

3) Timing is not a particularly important consideration in financial decisions.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi
Topic : 01-02 Evolution of Finance as a Discipline

4) Institutional investors have had increasing influence over corporations with their ability to vote large blocks of stock and replace poor performing boards of directors.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Difficulty : Easy
Topic : 01-07 Maximizing Shareholder Wealth

5) Insider trading involves the use of information not available to the general public to make profits from trading in a company's shares.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-12 Ethical Behaviour

6) Agency theory assumes that corporate managers act to increase the wealth of corporate shareholders.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Difficulty : Easy
Topic : 01-07 Maximizing Shareholder Wealth

7) Historically the field of finance as a discipline described capital preservation, liquidity, reorganization, and bankruptcy through the 1930s depression.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi
Topic : 01-02 Evolution of Finance as a Discipline

8) The higher the profit of a firm, the higher the value the firm is assured of receiving in the market.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Difficulty : Medium
Topic : 01-08 Measuring the Goal

9) Social responsibility and profit maximization are synonymous.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-11 Social Responsibility

10) There is unlimited liability in a general partnership.

- ⦾ true
- ⦾ false

Foundations Of Financial Management 12th Edition by Block Ch01

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-14 Forms of Organization

11) In the mid-1950s, finance began to change to a more analytical, decision-oriented approach.

- ⦿ true
- ⦿ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi
Topic : 01-04 An Analytical, Decision-oriented Discipline

12) There are some serious problems with the financial goal of maximizing the earnings of the firm.

- ⦿ true
- ⦿ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Difficulty : Easy
Topic : 01-08 Measuring the Goal

13) Maximizing the earnings of the firm is the goal of financial management.

- ⦿ true
- ⦿ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-07 Maximizing Shareholder Wealth
Learning Objective : 01-02 Identify the analysis and decision-making nature of finance while consider

14) Because socially desirable goals can impede profitability in many instances, managers should not try to operate under the assumption of wealth maximization.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Bloom's : Understand
Topic : 01-11 Social Responsibility

15) The sole proprietorship represents single-person ownership and offers the advantages of simplicity of decision making and low organizational and operating costs.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-15 Sole Proprietorship
Bloom's : Understand

16) Profits of sole proprietorships are taxed at corporate tax rates.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-15 Sole Proprietorship

17) The primary market includes the sale of securities by way of initial public offerings.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-20 Allocation of Capital

18) The most common partnership arrangement carries limited liability to the partners.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-16 Partnership

19) A limited partnership limits the profits partners may receive.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-16 Partnership

20) In terms of size of revenues and profits, the corporation is by far the most important form of business organization in Canada.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-17 Corporation
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an

21) Dividends paid to corporate shareholders have already been taxed once as corporate income.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-17 Corporation
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an

22) One advantage of the corporate form of organization is that income received by shareholders is not taxable since the corporation already paid taxes on the income distributed.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-17 Corporation
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an

23) A corporation must have at least 35 shareholders.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-17 Corporation
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an

24) Profits of a manufacturing corporation are taxed at the same rate as dividends.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-17 Corporation
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an

25) Recently, the emphasis of financial management has been on the relationships between risk and return.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-21 Risk

26) The formation of a corporation is a way to circumvent personal liability.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Topic : 01-17 Corporation
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an

27) The secondary market characteristically has had stable prices over the past 20 years.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-20 Allocation of Capital

28) The first Nobel Prizes given to finance professors was for their contributions to capital structure theory and portfolio theories of risk and return.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Difficulty : Easy
Topic : 01-07 Maximizing Shareholder Wealth

29) Financial markets exist as a vast global network of individuals and financial institutions that may be lenders, borrowers, or owners of public companies worldwide.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-18 The Role of the Financial Markets

30) Inflation has led to phantom profits and undervalued assets.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-21 Risk

31) Money markets refer to those markets dealing with short-term securities having a life of one year or less.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-19 Structure and Functions of the Financial Markets

32) Capital markets refer to those markets dealing with short-term securities having a life of one year or less.

⦿ true
⦿ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-19 Structure and Functions of the Financial Markets

33) New issues are sold in the secondary market.

⦿ true
⦿ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-20 Allocation of Capital

34) Existing securities are traded in the secondary market.

⦿ true
⦿ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-20 Allocation of Capital

35) The financial markets value assets based on the most productive current use.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-20 Allocation of Capital

36) Many firms that had diversified to reduce risks as per theory had, by the late 1990s, refocused on their core businesses

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-05 A Discipline Used by Financial Managers
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi

37) Pension fund managers are taking a more active role in the corporations in which they have an investment and are holding managers accountable.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-10 Management and Shareholder Wealth

38) The TSX Composite Index is representative of equity market value of the top listed Canadian companies.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-21 Risk

39) Commercial paper typically exhibit a higher yield than Treasury bills.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-21 Risk

40) Agency theory examines the relationship between companies and their customers.

⦾ true
⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Difficulty : Easy
Topic : 01-07 Maximizing Shareholder Wealth

41) Honesty in business requires timely and full disclosure of pertinent firm developments.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-12 Ethical Behaviour

42) Businesses will increasingly rely on B2B Internet applications to speed up cash flows.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-05 A Discipline Used by Financial Managers
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi

43) Issues over corporate governance are often agency problems.

- ⊙ true
- ⊙ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Medium

44) Agency theory examines the relationship between the owners of the firm and the managers of the firm.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Medium

45) Secondary markets are the markets that trade previously issued securities.

- ⦾ true
- ⦾ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-20 Allocation of Capital

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

46) What is the primary goal of financial management?

A) Increased earnings
B) Maximizing cash flow
C) Maximizing shareholder wealth
D) Minimizing risk of the firm

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Topic : 01-06 Goals of Financial Management
Bloom's : Remember
Difficulty : Easy

47) Proper risk-return management means that:

A) the firm should take as few risks as possible.
B) consistent with the objectives of the firm, an appropriate trade-off between risk and return should be determined.
C) the firm should earn the highest return possible.
D) the firm should value future profits more highly than current profits.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Difficulty : Easy
Topic : 01-07 Maximizing Shareholder Wealth

48) Which of the following is not a major area of concern and emphasis in modern financial management and in this text?

A) Inflation and its effect on profits
B) Stable short-term interest rates
C) Changing international environment
D) Increased reliance on debt

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-02 Identify the analysis and decision-making nature of finance while consider
Topic : 01-05 A Discipline Used by Financial Managers
Difficulty : Medium

49) Which of the following is not a major area of concern and emphasis in modern financial management and in this text?

A) Marginal analysis
B) Risk-return trade-off
C) Commodity trading
D) Changing financial institutions

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-02 Identify the analysis and decision-making nature of finance while consider
Topic : 01-05 A Discipline Used by Financial Managers
Difficulty : Medium

50) Some of the effects of high inflation are:

A) the gold standard was eliminated.
B) purchasing power increased.
C) interest rates fall.
D) Phantom profits and undervalued assets.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-17 Corporation

51) In the past, the study of finance has included:

A) operational efficiency.
B) employee relationships.
C) legal cases.
D) mergers and acquisitions.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi
Topic : 01-02 Evolution of Finance as a Discipline

52) A financial manager's goal of maximizing current or short-term earnings may not be appropriate because:

A) it considers the timing of the benefits.
B) increased earnings may be accompanied by acceptably higher levels of risk.
C) share ownership is widely dispersed.
D) earnings are subjective; they can be defined in various ways such as accounting or economic earnings.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Medium

53) One of the major disadvantages of a sole proprietorship is:

A) that there is unlimited liability to the owner.
B) the simplicity of decision making.
C) low organizational costs.
D) low operating costs.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-15 Sole Proprietorship

54) The partnership form of organization:

A) avoids the double taxation of earnings and dividends found in the corporate form of organization.
B) usually provides limited liability to the partners.
C) has unlimited life.
D) simplifies decision making.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-16 Partnership

55) A corporation is not:

A) owned by shareholders who enjoy the privilege of limited liability.
B) easily divisible between owners.
C) a separate legal entity with perpetual life.
D) a separate legal entity with limited life.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-17 Corporation
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an

56) Inflation:

A) increases corporations' reliance on debt for capital expansion needs.
B) creates larger asset values on the firm's historical balance sheet.
C) makes it cheaper (in terms of interest costs) for firms to borrow money.
D) creates stability for investors.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-17 Corporation

57) Which of the following securities is not included as part of the capital market?

A) Common stock
B) Commercial paper
C) Government bonds
D) Preferred stock

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-18 The Role of the Financial Markets

58) Maximization of shareholder wealth is a concept in which:

A) increased earnings are of primary importance.
B) profits are maximized on a quarterly basis.
C) virtually all earnings are paid as dividends to common shareholders.
D) optimally increasing the long-term value of the firm is emphasized.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Medium
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management

59) The largest Canadian corporations are mainly:

A) widely held.
B) family controlled.
C) U.S. controlled.
D) Japanese controlled.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-17 Corporation
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an

60) Which of the following is not a true statement about the goal of maximizing shareholder wealth?

A) It takes into account the timing of cash-flows.
B) It is a short-run point of view which takes risk into account.
C) It considers risk as a factor.
D) It is a long-run point of view which takes risk into account.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Medium
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management

61) Increased international competition can be seen as a motivator to emphasize:

A) asset diversification strategies.
B) the risk side of the risk-return relationship.
C) the return side of the risk-return relationship.
D) an increased investment in risky projects.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-21 Risk

62) Corporations can reduce portfolio risk by:

A) narrowing their focus on one successful product.
B) merging with companies in unrelated industries.
C) repurchasing their own stock.
D) selling their own stock.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-21 Risk

63) The shift to the return side of the risk-return relationship has occurred because there has been:

A) a narrower focus on production.
B) an increase in the prevalence of stock splits.
C) a decrease in the use of advanced technology in the production process.
D) an increase in global competition.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-21 Risk

64) A corporate buy-back, or the repurchasing of shares, is:

A) an example of balance sheet restructuring.
B) an excellent source of profits when the firm's stock is over-priced.
C) a method of reducing the debt-to-equity ratio.
D) shown as revenue on the income statement.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-09 Market Share Price
Bloom's : Understand

65) Which of the following is (are) a result of high inflation?

A) Loss from disposal of assets
B) Over-valued liabilities
C) Lower stock price
D) Under-valued assets

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-21 Risk
Bloom's : Understand

66) Institutional investors have more to say about the way publicly owned corporations are managed through their ability to

A) avoid conflicts of interest
B) enhance diversity of opinion
C) maximize residual value
D) replace poorly performing boards of directors

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Medium
Bloom's : Understand

67) Which of the following are not one of the drawbacks of selecting profit maximization as the primary goal of the firm?

A) risk may increase as profit changes.
B) accurately measuring profit is almost impossible.
C) profit fails to take into account the timing of benefits.
D) profits are measured using Generally Accepted Accounting Principles (GAAP).

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Medium

68) Agency theory deals with the issue of:

A) when to hire an agent to represent the firm in negotiations.
B) the legal liabilities of a firm if an employee, acting as the firm's agent, injures someone.
C) the limitations placed on an employee acting as the firm's agent to obligate or bind the firm.
D) the conflicts that can arise between the viewpoints and motivations of a firm's owners and managers.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Hard

69) As mergers, acquisitions, and restructurings have increased in importance, agency theory has become more important in assessing whether:

A) a stock repurchase should be undertaken.
B) shareholder goals are truly being achieved by managers in the long run.
C) managers are actually agents or only employees of the firm.
D) managers and owners are actually the same people with the same interests.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Hard

70) Insider trading occurs when:

A) someone has information not available to the public, which they use to profit from trading in stocks.
B) corporate officers buy stock in their company.
C) lawyers, investment dealers, and others buy common stock in companies represented by their firms
D) stock transactions occur with reduced brokerage fees.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-12 Ethical Behaviour

71) The major difficulty in most insider-trading cases has been:

A) that lenient judges have simply released the guilty individuals.
B) that insider trading, even though illegal, actually serves a beneficial economic and financial purpose.
C) that inside trading has been hard to prosecute successfully.
D) inside trades actually have a beneficial effect on the wealth of all shareholders.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Difficulty : Hard
Topic : 01-12 Ethical Behaviour

72) Setting a goal of profit maximization has all the following drawbacks except:

A) investors understand that generally, more profit is better
B) Risk may increase as profit changes
C) Profit fails to consider the timing of benefits
D) Accurately measuring profit is almost impossible

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Medium

73) Future financial managers will need to understand:

A) employment standards.
B) production engineering.
C) actuarial calculations.
D) international currency hedging strategies.

Foundations Of Financial Management 12th Edition by Block Ch01

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-13 Functions of Financial Management

74) Professors Harry Markowitz and William Sharpe received their Nobel prize in economics for their contributions to the:

A) options pricing model.
B) theories of working capital management.
C) theories of risk-return and portfolio theory.
D) theories of international capital budgeting.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Medium

75) In the 1930s, financial practices did not focus on:

A) maintenance of liquidity.
B) reorganization of financially distressed companies.
C) the bankruptcy process.
D) international exchange costs.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi
Topic : 01-02 Evolution of Finance as a Discipline

76) The increasing percentage ownership of public corporations by institutional investors has:

A) had no effect on corporate management.
B) created higher returns for the stock market in general.
C) created more pressure on public companies to manage their firms more efficiently.
D) taken away the voice of the individual investor.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Difficulty : Medium
Topic : 01-10 Management and Shareholder Wealth

77) Money markets would include which of the following securities?

A) Common stock and corporate bonds
B) Treasury bills and commercial paper
C) Certificates of deposit and preferred stock
D) Government bonds.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-19 Structure and Functions of the Financial Markets

78) When a corporation uses the financial markets to raise new funds, the sale of securities is made in the:

A) primary market.
B) secondary market.
C) on-line market.
D) third market.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-19 Structure and Functions of the Financial Markets

79) Companies that have higher risk than a competitor in the same industry will generally have:

A) to pay a lower interest rate than its competitors.
B) a higher relative stock price than its competitors.
C) a lower cost of funds than its competitors.
D) to pay a higher interest rate than its competitors.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-21 Risk

80) The financial markets allocate capital to corporations by:

A) reflecting expectations of the market participants in the corporation's share price.
B) requiring higher returns from companies with lower risk than their competitors.
C) rewarding companies with expected high returns with lower relative stock prices.
D) relying on the opinion of investment dealers.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-20 Allocation of Capital

81) Corporate restructuring has been one result of more institutional ownership. Restructuring can cause:

A) stability in the asset and liabilities of the firm.
B) the purchase of low-profit margin divisions.
C) the promotion of current management and/or large increases in the workforce.
D) changes in the asset and liabilities of the firm.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-12 Ethical Behaviour

82) Corporate restructuring in the late 1990s more often took the form of:

A) leveraged buyouts.
B) mergers to refocus on core businesses.
C) a change in capital structure.
D) addition of senior management.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-05 A Discipline Used by Financial Managers
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi

83) The increase in the internationalization of financial markets has led:

A) to companies searching the global financial markets for high cost funds.
B) to a decrease in Canadian companies listing on the New York Stock Exchange.
C) to a decrease in debt obligations denominated in foreign currency on Canadian corporate balance sheets.
D) to the tasks of the financial manager being reshaped.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-21 Risk

84) The internationalization of the financial markets has:

A) allowed firms such as Bombardier to raise capital around the world.
B) raised the cost of capital.
C) forced companies to value everything in U.S. dollars.
D) created ASPE.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-20 Allocation of Capital

85) Increased use of technology has increased corporate efficiency by:

A) increasing the firm's reliance on debt.
B) creating larger asset values on the firm's balance sheet.
C) made it cheaper (in terms of interest costs) for firms to borrow money.
D) creating electronic communication networks.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-21 Risk

86) Maximization of shareholder wealth is a concept in which:

A) increased earnings are of primary importance.
B) increased cash flows are of primary importance.
C) increased dividends are of primary importance.
D) increased share price is of primary importance.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Medium

87) Capital structure is:

A) the relative mix of capital and intangible assets held by the firm.
B) the relative importance of debt and equity in the firm's financing.
C) the relative importance of long-term investment decisions.
D) the terms required to borrow money.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi
Difficulty : Hard
Topic : 01-04 An Analytical, Decision-oriented Discipline

88) Financial markets allocate capital based on:

A) the pricing mechanism.
B) the efforts of financial intermediaries.
C) intervention by the Bank of Canada.
D) the number of Treasury bills outstanding.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-20 Allocation of Capital

89) Corporate governance is the:

A) relationship and exercise of oversight by the board of directors of the company.
B) relationship between the chief financial officer and institutional investors.
C) operation of the firm by the chief executive officer (CEO) and other senior executives on the management team.
D) act of strategically directing the company through the board of directors with a focus on social responsibility.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-12 Ethical Behaviour

90) Agency theory examines the relationship between:

A) shareholders of the firm and its investment dealers.
B) shareholders of the firm and its managers.
C) the board of directors and large institutional investors.
D) shareholders of the firm and its transfer agent.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Difficulty : Easy
Topic : 01-07 Maximizing Shareholder Wealth

91) Agency theory would imply that conflicts are more likely to occur between management and shareholders when:

A) the company is owned and operated by the same person.
B) management acts in the best interests of maximizing shareholder wealth.
C) the chair of the board of directors is also the chief executive officer (CEO).
D) the board of directors exerts strong and involved oversight of managers.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-10 Management and Shareholder Wealth

92) The internationalization of the financial markets has:

A) lowered the cost of capital.
B) raised the cost of capital.
C) forced companies to value everything in U.S. dollars.
D) had no effect on the cost of capital.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 Outline the role of financial markets in allocating capital, determining v
Topic : 01-21 Risk

93) In analysis of a firm's market share value, an investor should not consider:

A) the risk inherent in the firm.
B) the time pattern of the firm's earnings and cash flow.
C) the quality and reliability of reported earnings.
D) book value of assets.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Difficulty : Easy
Topic : 01-09 Market Share Price

94) The increased percentage of ownership of public corporations by institutional investors has:

A) had no effect on corporate management.
B) created higher returns for the stock market in general.
C) created less pressure on public companies to manage their firms more efficiently.
D) increased the ethical standards of management.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Topic : 01-07 Maximizing Shareholder Wealth
Difficulty : Medium

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

95) Financial management builds upon the disciplines of economics and accounting. Complete the following statements:

a) Economics provides the financial manager with...
b) Accounting provides the financial manager with...

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Illustrate how finance builds on the disciplines of accounting and economi
Difficulty : Hard
Topic : 01-01 The Field of Finance

96) Selecting profit maximization as the primary goal of the firm may not increase its value, because a profit-only focus has several drawbacks. List and describe these drawbacks.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Difficulty : Medium
Bloom's : Understand
Topic : 01-08 Measuring the Goal

97) What 4 factors will investors consider in the analysis of a firm market share value?

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Examine the primary goal of finance as the maximization of shareholder wea
Bloom's : Remember
Difficulty : Medium
Topic : 01-09 Market Share Price

98) According to agency theory, other than maximizing shareholder wealth what other self-interests do financial managers have?

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-10 Management and Shareholder Wealth

99) Besides maximizing shareholder wealth, what should corporations consider to be goals? List and briefly explain.

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Bloom's : Understand
Topic : 01-11 Social Responsibility

Foundations Of Financial Management 12th Edition by Block Ch01

100) What are the 4 components of good corporate governance?

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-11 Social Responsibility

101) List the 4 components of good corporate governance and identify additional measures that could be added to strengthen corporate governance.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Bloom's : Understand
Difficulty : Hard
Topic : 01-11 Social Responsibility

102) List the occasional functions of the finance manager connected to the efficient raising and investing of funds.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-04 Debate alternative goals of the firm on the basis of social or management
Topic : 01-13 Functions of Financial Management

103) What are the characteristics of a sole proprietorship? What are the drawbacks?

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-15 Sole Proprietorship
Bloom's : Understand

104) What are the characteristics of a partnership? What are the advantages compared to a sole proprietorship?

Question Details
Accessibility : Keyboard Navigation
Difficulty : Medium
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Topic : 01-16 Partnership
Bloom's : Understand

105) What are the characteristics of a corporation?

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Topic : 01-17 Corporation
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an

106) What 2 choices does the board of directors have to distribute earnings of a corporation?

Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Topic : 01-17 Corporation
Learning Objective : 01-05 Identify financial manager functions connected to the efficient raising an
Bloom's : Understand

Foundations Of Financial Management 12th Edition by Block Ch01
Answer Key

Test name: 001

1) TRUE
2) FALSE
3) FALSE
4) TRUE
5) TRUE
6) FALSE
7) TRUE
8) FALSE
9) FALSE
10) TRUE
11) TRUE
12) TRUE
13) FALSE
14) FALSE
15) TRUE
16) FALSE
17) TRUE
18) FALSE
19) FALSE
20) TRUE
21) TRUE
22) FALSE
23) FALSE
24) FALSE
25) TRUE

26) TRUE
27) FALSE
28) TRUE
29) TRUE
30) TRUE
31) TRUE
32) FALSE
33) FALSE
34) TRUE
35) TRUE
36) TRUE
37) TRUE
38) TRUE
39) TRUE
40) FALSE
41) TRUE
42) TRUE
43) TRUE
44) TRUE
45) TRUE
46) C
47) B
48) B
49) C
50) D
51) D
52) D
53) A
54) A
55) D

56) A
57) B
58) D
59) A
60) B
61) C
62) B
63) D
64) A
65) D
66) D
67) D
68) D
69) B
70) A
71) C
72) A
73) D
74) C
75) D
76) C
77) B
78) A
79) D
80) A
81) D
82) B
83) D
84) A
85) D

Foundations Of Financial Management 12th Edition by Block Ch01

86) D
87) B
88) A
89) A
90) B
91) C
92) A
93) D
94) D

95)**Economics** provides the financial manager with the following:

• A broad picture of the economy and the key measures that influence the corporation's decisions and performance (gross domestic product, industrial production, disposable income, unemployment, inflation, interest rates, taxes).
• An understanding of the institutional structure of our mixed capitalist system (government regulation, Bank of Canada, chartered banks, investment dealers, trusts, insurance companies, financial markets). Capital is accumulated and valued in competitive financial markets, affecting its cost and availability to the firm.
• A structure for decision making (risk analysis, pricing theory through supply and demand relationships, comparative return analysis).

Accounting provides the financial manager with the following:

• Much of the language of finance (assets, liabilities, cash flow).
• Financial data (income statements, balance sheets, statement of cash flows). The financial manager must know how to interpret and use this data in allocating the firm's financial resources to generate the best value on the basis of return and risk.

Finance links economic theory with the numbers of accounting, and all corporate managers—whether in the area of production, sales, research, marketing, management, or long run strategic planning - must know what it means to assess the financial performance of the firm.

96) 1.**Riskmayincreaseasprofitchanges**. More debts or investment in projects with cyclical earnings to increase profits also increase risk. Shareholders may consider the increase in risk insufficient for the increased earnings.

2.**Profitfailstotakeintoaccountthetimingofbenefits**. We might be indifferent between the following alternatives if our emphasis were solely on maximizing earnings, as the total is the same. However, alternative B is clearly superior, because larger benefits occur earlier; we could reinvest the difference in earnings for alternative B for an extra period.

EarningsperShare

	Period 1	**Period 2**	**Total**
Alternative A	$1.50	$2.00	$3.50
Alternative B	$2.00	1.50	3.5

3.**Accuratelymeasuringprofitisalmostimpossible**. Economics and accounting define profit (earnings) differently. Furthermore, earnings may not correspond to current values due to the methods used to capture accounting accruals and the amortization of capital expenditures. As well, financial statements are subject to manipulation by managers, so reported earnings will be misleading.

97) • The risk inherent in the firm (nature of its operations and how the firm is financed)
• The time pattern of the firm's earnings and cash flows
• The quality and reliability of reported earnings (as a guidepost to future earning power)
• Economic and political factors

98) Financial managers are interested in:

• Maintaining their jobs (may discourage value-enhancing takeovers)
• Protecting "private spheres of influence"
• Maximizing their own compensation package
• Arbitrating among the firm's different stakeholders (shareholders, creditors, employees, unions, environmentalists, consumer groups, Canada Revenue Agency, government regulatory bodies, customers)

Pursuit of these interests may emphasize short-term results over long-term wealth building. Management may also perceive the risk of investment decisions differently from shareholders, leading to different points of view as to the best decision regarding the investment of the firm's resources.

99) Corporations, which receive their operational charters from society, should consider socially desirable actions that include:

• Community works (charitable giving, employment opportunities for marginalized groups)
• Customer respect (safe products, fair pricing, appropriate advertising and communication)
• Strong employee relations (fair benefits and compensation, equitable hiring, education, health and safety)
• Environmental health (pollution controls, appropriate use and renewal of resources)
• Human rights promotion (respecting the dignity of individuals globally)

100) Good corporate governance results from:

• Board composition (strong leadership, competent education, balanced competencies)
• Director and officers ownership positions in the firm (other than by stock options)
• A published code of ethics
• Independent audits and a financially literate audit committee

101) Good corporate governance results from:

• Board composition (strong leadership, competent education, balanced competencies)
• Director and officers ownership positions in the firm (other than by stock options)
• A published code of ethics
• Independent audits and a financially literate audit committee

There have been increased demands for additional corporate governance practices by firms, despite the increased costs of compliance and sometimes delays in timely reporting of financial results. These measures include:

• Separating the roles of CEO and chair of the board
• Independent directors of the board
• Improved accounting standards (stock options, internal audit controls, "off-balance sheet items")
• More stringent reporting and disclosure requirements
• Closer monitoring by regulatory bodies (securities commissions)
• Questioning the use of "dual class" shares

102) Intermediate financing, bond issues, leasing, stock issues, capital budgeting, dividend decisions, forecasting

103) A sole proprietorship is characterized by:

• Single-person ownership
• Simplicity of decision making
• Low organizational and operating costs
• Unlimited liability to the owner (can lose personal assets in settlement of firm's debts)
• Profits or losses taxed in hands of individual owner

Most small businesses with only a few employees are sole proprietorships. The unlimited liability is a serious drawback and few lenders are willing to advance funds to a small business without a personal liability commitment from the owner.

104) A partnership is characterized by

• Multiple ownership
• Ability to raise more capital and share ownership responsibilities
• Unlimited liability for the owners (one wealthy partner may have to bear a disproportionate share of losses in a**generalpartnership**)
• Taxation of profits or losses are allocated in percentages to partners

To circumvent the unlimited liability feature, a special form of partnership, called a**limitedpartnership**, can be utilized. Under this arrangement one or more partners are designated general partners and have unlimited liability for the debts of the firm; other partners are designated limited partners and are liable only for their initial contribution. The limited partners are normally prohibited from being active in the management of the firm.

105) A **corporation** is characterized by:

• A legal entity unto itself (may sue or be sued, engage in contracts, acquire property)
• Ownership by shareholders (each with limited liability, although bankers may require small business owners to give their personal guarantee)
• Divisibility of the ownership (many shareholders)
• Continuous life span (not dependent on life of one shareholder)
• Taxation on its own income (individual shareholders pay tax on dividends or capital gain tax when shares are sold)

In terms of revenue and profits produced, the corporation is by far the most important form of economic unit.

106) Earnings generated by the corporation are owned equally by each shareholder, and the board of directors has two choices for these earnings.
Earnings can be:

• Paid out as dividends (shareholders pay tax on dividends: a dividend tax credit reduces the effect of double taxation)
• Reinvested in the firm (recorded as retained earnings)