# *Finance - Applications and Theory 2025 Release 1st edition Cornett Test Bank*

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Answers are located at the end of each chapter.

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

1) Which statements(s) is/are true for the successful application of financial theories?
   A) The economy will be more productive.
   B) Individual's wealth will grow.
   C) The economy will be more productive, and individual's wealth will grow.
   D) None of these choices are correct.

2) Not all cash a company generates will be returned to the investors. Which of the following will *NOT* reduce the amount of capital returned to the investors?
   A) retained earnings
   B) taxes
   C) dividends

3) This subarea of finance involves methods and techniques to make appropriate decisions about what kinds of securities to own, which firms' securities to buy, and how to be paid back in the form that the investor wishes.
   A) real markets
   B) investments
   C) financial management

4) This subarea of finance looks at firm decisions in acquiring and utilizing cash received from investors or from retained earnings.
   A) investments
   B) financial management
   C) financial institutions and markets

5) Financial management involves decisions about which of the following?
   A) Which projects to fund
   B) How to minimize taxation
   C) What type of capital should be raised
   D) All of these choices are correct.



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6) This subarea of finance helps facilitate the capital flows between investors and companies.
   A) investments
   B) financial management
   C) treasury management
   D) financial institutions and markets

7) This subarea of finance is important for adapting to the global economy.
   A) investments
   B) financial management
   C) international finance
   D) financial institutions and markets

8) A potential future negative impact on value and/or cash flows is often discussed in terms of the probability of loss and the expected magnitude of the loss. This is called
   A) options.
   B) standard deviation.
   C) coefficient of variation.
   D) risk.

9) This is a term to describe non-physical assets like stocks and bonds that get their value from future cash flows.
   A) investment
   B) financial asset
   C) real asset
   D) financial markets

10) Which of the following is defined as a group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations?
   A) investments
   B) asset classes
   C) market instruments
   D) financial markets



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11) The most commonly accepted groups of asset classes include all of the following except
A) stocks.
B) bonds.
C) machinery and equipment.
D) real estate.

12) The _____ is the interest rate at which banks and other depository institutions lend reserve balances to one another overnight; this rate heavily influences other short-term rates.
A) average tax rate
B) exchange rate
C) federal funds rate
D) none of these choices are correct.

13) Which of the following statements regarding quantitative easing (QE) are true?
A) QE is a monetary policy designed to increase the money supply in the economy by buying securities in the market and lowering short-term interest rates.
B) The first round of QE involved the Fed purchasing potentially toxic mortgage-backed securities from banks.
C) During early 2020 due to the COVID-19 pandemic, the Fed dropped the federal funds rate to 1.25% and then again 0.25 a few months later.
D) All of these choices are correct.

14) Which of the following is the firm's highest-level financial manager?
A) chief executive officer
B) chief financial officer
C) board of directors
D) corporate governance

15) Which of the following managers would *NOT* use finance primarily?
A) operational managers
B) marketing managers
C) human resource managers
D) all of these choices are correct.



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16) Which of the following personal decisions is impacted by finance?
A) borrowing money to purchase cars or homes
B) making credit card payments
C) making retirement decisions
D) all of these choices are correct.

17) When determining a form of business organization, all of the following are considered *EXCEPT*
A) who owns the firm.
B) the owners' risks.
C) the tax ramifications.
D) the physical location of the business.

18) This type of business organization is relatively easy to start, and it is subject to much lighter regulatory and paperwork burden than other business forms.
A) sole proprietorship
B) partnership
C) corporation
D) hybrid organization

19) This type of business organization is entirely legally independent from its owners.
A) sole proprietorship
B) partnership
C) public corporations
D) hybrid organizations

20) Which of the following is *NOT* considered a hybrid organization?
A) S corporation
B) limited liability partnership
C) limited liability company
D) limited partnership
E) all of these choices are considered hybrid organizations.



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21) The practice generally known as double taxation is due to
A) shareholders' dividends being taxed at both the federal and state levels only.
B) corporate income being taxed at both the federal and state levels only.
C) interest on shareholders' dividends being taxed as income only.
D) corporate incomes being taxed at the corporate level, then again at the shareholder level when corporate profits are paid out as dividends.

22) As individual legal entities, corporations assume liability for their own debts, so the shareholders hold
A) only limited liability.
B) unlimited liability.
C) shared liability.
D) joint liability.

23) For an angel investor or venture capitalist to exchange capital for ownership in a business that is a sole proprietorship, which of these must happen?
A) The business must be re-formed as a partnership.
B) The owner must give up some control.
C) The owner must co-sign on all loans.
D) The business must be re-formed as a partnership and the owner must give up some control.

24) Which statement(s) should be considered to maximize the owner’s equity value?
A) How best to bring additional funds into the firm.
B) Which projects to invest in.
C) How best to return the profits from those projects to the owners over time.
D) All of these should be considered.

25) For corporations, maximizing the value of owner's equity can also be stated as
A) maximizing retained earnings.
B) maximizing earnings per share.
C) maximizing net income.
D) maximizing the stock price.



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26) A metaphor used to illustrate how an individual pursuing their own interests also tends to promote the good of the community.
A) agency theory
B) angel investor
C) invisible hand
D) perks or perquisites

27) This should be the primary objective of a firm as it may be the most beneficial for society in the long run.
A) minimizing layoffs
B) maximizing market share
C) minimizing costs
D) maximizing shareholder value

28) Nonwage compensation that might enhance owner value, in that such items may boost managers' productivity.
A) agency theory
B) angel investor
C) invisible hand
D) perks or perquisites

29) Which of these are *NOT* basic approaches to minimizing the agency problem?
A) ignore the conflict of interest
B) monitor managers' actions
C) align managers' interests with those of the owners by making the managers owners
D) all of these choices are correct.

30) Which of the following is an example of aligning managers' interests with those of the owners?
A) allow the managers to have as many perks as they request
B) pay the managers high salaries
C) offer the managers an equity stake in the firm
D) trust the managers' actions as they will always act in the owners' best interest



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31) This is the set of laws, policies, incentives, and monitors designed to handle the issues arising from the separation of ownership and control.
A) agency theory
B) corporate governance
C) defined benefit plan
D) invisible hand

32) This group is elected by stockholders to oversee management in a corporation.
A) chief counselors
B) chief executives
C) board of directors
D) auditors

33) These individuals examine the firm's accounting systems and comment on whether financial statements fairly represent the firm's financial position.
A) accounting departments
B) chief financial officers
C) board of directors
D) auditors

34) These individuals follow a firm, conduct their own evaluations of the company's business activities, and report to the investment community.
A) auditors
B) investment analysts
C) investment bankers
D) credit analysts

35) These individuals help firms access capital markets and advise managers about how to interact with those capital markets.
A) auditors
B) investment analysts
C) investment bankers
D) credit analysts



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36) These individuals examine a firm's financial strength for its debt holders.
A) auditors
B) investment analysts
C) investment bankers
D) credit analysts

37) Which of the following is a legal duty between two parties where one party must act in the interest of the other party?
A) agency theory
B) angel investor
C) fiduciary
D) investment banker

38) Which of the following can create ethical dilemmas between corporate managers and stockholders?
A) agency relationship
B) auditors
C) boards of directors
D) venture capitalist

39) Individuals who provide small amounts of capital and expert business advice to small firms in exchange for an ownership stake in the firm are referred to as
A) institutional investors.
B) corporate investors.
C) angel investors.
D) capital investors.

40) The opportunity to buy stock at a fixed price over a specific period of time is referred to as
A) stock opportunities.
B) stock options.
C) real assets.
D) restricted stock.



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41) The portion of a company's profits that are kept by the company rather than distributed to the stockholders as cash dividends is referred to as
A) restricted earnings.
B) venture capital.
C) retained earnings.
D) institutional investment.

42) An employee stock option plan is
A) a perk usually only given to the board of directors as compensation.
B) a plan that only partnerships can use to defer compensation to partners.
C) a way to align the interests of employees with those of the owners.

43) Outside parties that monitor the firm include all of the following *EXCEPT*
A) credit agencies.
B) the New York Stock Exchange.
C) analysts.
D) bankers.

44) Which of the following is *NOT* a function of the board of directors?
A) hire the CEO
B) evaluate the CEO
C) design compensation contracts for the CEO
D) provide reports to the auditors

45) The overall goal of the financial manager is to
A) minimize total costs.
B) maximize net income.
C) maximize earnings per share.
D) maximize shareholder wealth.



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46) Maximizing owners' equity value means carefully considering all of the following *EXCEPT*

A) how to best bring additional funds into the firm.
B) which projects to invest in.
C) how best to increase the firm's risk.
D) how best to return the profits from those projects to the owners over time.

47) The agency relationship in corporate finance occurs

A) when the shareholders hire a manager to run their company.
B) when the corporation hires an advertising agency to market their new product or service.
C) when the board of directors are elected to staggered terms.
D) when the board of directors oversee the CEO.

48) The most common type of business in the United States is the

A) corporation.
B) partnership.
C) sole proprietorship.
D) hybrid organization such as a limited liability company.

49) The biggest disadvantage of the sole proprietorship is

A) unlimited liability.
B) double taxation.
C) limited access to capital.
D) total control.

50) Which of the following statements is incorrect?

A) Sole proprietorships are subject to less regulation.
B) Both angel investors and venture capitalists exchange capital for ownership.
C) Shareholders are responsible for paying off the corporate bonds in the event of bankruptcy.
D) All of these choices are correct.



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51) All of the following are advantages to organizing as a corporation *EXCEPT*

A) limited liability.
B) double taxation.
C) easy access to capital.
D) easy to transfer ownership.

52) Which of the following statements is correct?

A) Sole proprietorships are easy to start.
B) If the sole proprietorship gets sued, the owner is not liable.
C) It is relatively easy for sole proprietorships to raise money.
D) Profits from the sole proprietorship are subject to double taxation.

53) From a taxation perspective, the form of business organization with the highest business level taxes is the

A) sole proprietorship.
B) corporation.
C) partnership.
D) S corporation.

54) From the perspective of access to capital, the best form of business organization is the

A) sole proprietorship.
B) corporation.
C) partnership.
D) S corporation.

55) From the perspective of ownership risk, the best form of business organization is the

A) sole proprietorship.
B) corporation.
C) partnership.
D) S corporation.



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56) From the perspective of control, the best form of business organization is the
A) sole proprietorship.
B) corporation.
C) partnership.
D) S corporation.

57) Which of the following statements is incorrect?
A) Partnerships have unlimited liability.
B) Most sole proprietors raise money by borrowing from banks.
C) An advantage of sole proprietorships is that the owner has complete control.
D) S corporations are considered a hybrid organization.

58) Which organization(s) is/are characterized by single taxation and limited liability to all owners?
A) S corporations
B) Limited liability partnerships (LLPs)
C) Limited liability companies (LLCs)
D) All of these choices are correct.

59) Which statement is incorrect regarding hybrid organizations?
A) They offer single taxation.
B) They offer limited risk to the owners.
C) They offer the same type of control as a sole proprietorship.
D) All of these choices are correct.

60) Agency problems exist in which forms of business ownership?
A) sole proprietorship
B) S corporation
C) partnership
D) corporation



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61) Methods to minimize the agency problem include all *EXCEPT*

A) offer the managers an equity stake in the firm.
B) award the CEO stock options.
C) allow the CEO to purchase stock via an employee stock option plan.
D) allow the CEO to purchase bonds via an employee bond option plan.

62) All of the following are an example of a fiduciary relationship *EXCEPT*

A) a bank employee manages deposits.
B) a financial advisor advises her clients.
C) a CEO manages the firm.
D) the shareholder elects a board member.

63) Restricted stock is a special type of stock that

A) is not transferable from the current holder to others until specific conditions are satisfied.
B) can be converted into corporate bonds after a specific amount of time has elapsed.
C) is a result of offering an employee stock ownership plan.

64) The board of directors

A) are hired by the CEO.
B) are elected by shareholders.
C) have unlimited liability since they oversee the day-to-day operations of the firm.
D) are employed by the Securities Exchange Commission to ensure its rules and regulations have been met.

65) Which of these does *NOT* act as a monitor of how the firm is being run outside the firm?

A) auditors
B) analysts
C) credit rating agencies
D) members of the board of directors



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66) An angel investor differs from a venture capitalist because of the
A) type of investment.
B) investment time frame.
C) size of investment.
D) voting rights.

67) Corporate stakeholders include all of the following *EXCEPT*
A) employees.
B) shareholders.
C) suppliers.
D) auditors.

68) What is the difference in perspective between finance and accounting?
A) timing
B) risk
C) liability
D) ownership

69) Which of the following statements is correct?
A) Accountants are focused on what happened in the past.
B) Financial managers are focused on what happened in the past.
C) Both accountants and financial managers use total quality management systems to standardize data.
D) Financial managers double-check the accountant's statements.

70) Which of these is the system of incentives and monitors that tries to overcome the agency problem?
A) Security Exchange Commission
B) Checks and Balances
C) Board of Directors
D) Corporate Governance



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71) The treasurer is typically responsible for
A) managing cash and credit.
B) issuing and repurchasing financial securities such as stocks and bonds.
C) hedging against charges in foreign exchange and interest rates.
D) All of these choices are correct.

72) Which of the following does not ensure firm viability over the long run?
A) maximizing employment
B) market share
C) profits
D) all of these choices are correct.

73) Which of these must effectively distribute capital between investors and companies?
A) individuals
B) international investors
C) companies
D) financial institutions

74) Which of the following can use financial concepts to improve their decisions?
A) financial professionals only
B) financial and nonfinance professionals
C) day-to-day operations managers only
D) long-term operations managers only

75) Which of the following will help you make better personal financial decisions?
A) knowing finance theory
B) applying financial tools
C) auditors
D) knowing finance theory and applying financial tools



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76) Resulting from an updated rule by the U.S. Securities Exchange Commission in 2017
A) publicly traded companies are to release a ratio of CEO earnings compared to median pay for workers.
B) the median ratio of CEO-to-median-worker-salary for the 100 largest companies is 235-to-one.
C) Both of these choices are true.
D) Both of these choices are false.

77) According to the new Tax Cuts and Jobs Act (TCJA) of 2017, which of the following statements is/are true?
A) Changes in tax law can lead to making different financial decisions.
B) The new law reduces the amount of debt interest that can be deducted.
C) Companies may wish to use more equity financing and less debt financing.
D) All of these choices are correct.

78) The net effect of the Tax Cuts and Jobs Act (TCJA) was to
A) cut corporate taxes.
B) eventually trickle down to worker's wages.
C) Neither of these choices is correct.
D) Both of these choices are correct.

79) Which of the following statements are not true regarding the economic effects of the COVID-19 pandemic?
A) Are likely to increase the chances of the TCJA being extended past 2025.
B) The shock resulting from quarantine, unemployment, and business closures dealt a blow to consumer service industries.
C) Federal, state, and local governments all saw massive declines in tax revenues during the pandemic.
D) All of these choices are correct.

80) As of 2024, the single filer marginal tax rate for an individual making $200,100 is
A) 22%.
B) 24%.
C) 32%.
D) 35%.



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81) As of 2024, the married filing jointly marginal tax rate the income range of $315,000 is
A) 22%.
B) 24%.
C) 32%.
D) 35%.

82) If the provisions under the Tax Cuts and Jobs Act (TCJA) are allowed to expire after the end of 2025, which of the following statements is/are true?
A) Many taxpayers will once again have higher tax rates in most tax brackets.
B) Income ranges of the tax brackets may revert to their pre-TCJA ranges and then be adjusted for inflation.
C) The child tax credit of $2,000 per child may be cut in half to $1,000 per child.
D) All of these choices are correct.

83) The net effect of the Tax Cuts and Jobs Act (TCJA) on corporate tax rates
A) established a flat 21% corporate rate.
B) changed provisions including limiting their ability to immediately deduct the cost of research and equipment.
C) changed provisions including limiting the ability to deduct certain interest expenses.
D) All of these choices are correct.



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# Answer Key

Test name: Chapter 01

1) C
2) C
3) B
4) B
5) D
6) D
7) C
8) D
9) B
10) B
11) C
12) C
13) D
14) B
15) D
16) D
17) D
18) A
19) C
20) E
21) D
22) A
23) D
24) D
25) D
26) C
27) D
28) D
29) D
30) C
31) B
32) C
33) D
34) B
35) C
36) D
37) C



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38) A
39) C
40) B
41) C
42) C
43) B
44) D
45) D
46) C
47) A
48) C
49) A
50) C
51) B
52) A
53) B
54) B
55) B
56) A
57) B
58) D
59) C
60) D
61) D
62) D
63) A
64) B
65) D
66) C
67) D
68) A
69) A
70) D
71) D
72) D
73) D
74) B
75) D
76) C
77) D



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78) D
79) A
80) C
81) B
82) D
83) D



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