Principles of Finance 1st edition Dahlquist Test Bank

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TEST BANK

Principles of Finance

Chapter 1
Test Bank

Introduction to Finance

True or False Questions

1. The application of common sense is sufficient for companies to manage their financial operations.

   A. True
   B. False

   Section 1.1 LO 1 Easy

2. The Financial Industry Regulatory Authority (FINRA) is a US federal institution charged with enforcement of US financial regulations.

   A. True
   B. False

   Section 1.1 LO 3 Moderate

3. The key common feature of market brokers and dealers is that they both act as intermediaries.

   A. True
   B. False

   Section 1.5 LO 2 Moderate

4. The term *broker* refers only to financial firms that buy and sell stock.

   A. True
   B. False

   Section 1.5 LO 2 Difficult

Multiple Choice Questions

1. Business finance looks at how managers apply financial principles to maximize the value of a firm. Who benefits **most** when the value of the firm is maximized?

   A. Management
   B. Employees
   C. Shareholders
   D. Customers

   Section 1.1 LO 1 Moderate

2. Which of the following areas of finance is a more narrowly focused subfield of one of the other three areas?

   A. Business finance
   B. Financial markets and institutions
   C. Investments
   D. Working capital management

   Section 1.1 LO 1 Moderate

3. Financial regulations in the United States were significantly expanded and improved beginning in the 1930s. What was the primary motivation for this regulatory reform and improvement?

   A. To make financial investing more profitable
   B. To make markets safer and increase investor confidence
   C. To increase tax receipts for the US government
   D. To increase unemployment during the Great Depression

   Section 1.1 LO 3 Moderate

4. The concepts of risk and return are fundamental to finance and are seen in many applications. The relationship between risk and return is ________.

   A. direct and positive
   B. inverse
   C. neutral
   D. uncorrelated

   Section 1.1 LO 3 Moderate

5. Corporate budgets are important because they provide what to companies?

   A. Established objectives for the upcoming period
   B. Financial statements to submit to regulators
   C. A tax-planning tool
   D. Share price targets

   Section 1.2 LO 2 Moderate

6. Company managers use financial data extensively to make ongoing business decisions within the firm. Which of the following are external users of a company's data?

   A. Strategic planning staff
   B. Department managers
   C. Suppliers
   D. Internal auditors

   Section 1.3 LO 2 Moderate

7. Which type of financial data do companies generally not provide to the public?

   A. Balance sheets
   B. Income statements
   C. Staff salaries
   D. Statements of cash flows

   Section 1.3 LO 5 Easy

8. According to the US Bureau of Labor Statistics, the finance field is expected to ________ over the next 10 years.

   A. grow and diversify
   B. grow but narrow in opportunities
   C. contract but diversify
   D. contract and narrow in opportunities

   Section 1.4 LO 1 Moderate

9. A financial analyst holds an essential position within a corporate or financial firm. Of the many skills that are needed in this position, which of the following is typically **most** important?

   A. Quantitative and analytical skills
   B. Communication skills
   C. Adaptability
   D. Ability to focus on tasks

   Section 1.4 LO 2 Moderate

10. As a financial analyst advances to the role of financial manager, what key attribute is needed in their new role that was not previously required?

    A. Comprehensive strategic thinking skills
    B. Highly specific financial skills
    C. Strong grasp of financial fundamentals
    D. Technical capabilities

    Section 1.4 LO 3 Moderate

11. The US Bureau of Labor Statistics predicts that the finance industry will experience a future job market characterized by what?

    A. More jobs at lower salaries
    B. More jobs at higher salaries
    C. Fewer jobs at lower salaries
    D. Fewer jobs at higher salaries

    Section 1.4 LO4 Moderate

12. When a company's security is sold in the secondary market, which entity receives the proceeds of the sale?

    A. The company
    B. The exchange where the security was traded
    C. The securities seller
    D. The bank syndicate

    Section 1.5 LO 1 Moderate

13. It is said that an effective and efficient secondary market is essential to having a functioning primary market. Why might this be true?

    A. The secondary market allows investors to liquidate their assets.
    B. The primary market can be inefficient.
    C. Individual investors cannot access the primary market.
    D. The secondary market provides an accurate pricing mechanism.

    Section 1.5 LO 1 Difficult

14. The key difference between a broker and a dealer is that the dealer is a "market maker," meaning they are able to give a "two-way price." As a market maker, the dealer is what?

    A. Sometimes ready to buy a security
    B. Always ready to sell a security
    C. Able to advise on whether to buy or sell a security
    D. Able to give tax advice to the customer

    Section 1.5 LO 2 Difficult

15. Which US federal agency is responsible for regulatory oversight and enforcement of publicly traded securities?

    A. Federal Deposit Insurance Corporation (FDIC)
    B. Financial Industry Regulatory Authority (FINRA)
    C. Securities and Exchange Commission (SEC)
    D. New York Stock Exchange (NYSE)

    Section 1.5 LO 2 Moderate

16. Financial intermediaries are essential players in functioning financial markets. Of the many roles that financial intermediaries play, which one has occasionally caused harm to financial markets rather than benefiting them?

    A. Bringing together depositors and borrowers
    B. Creating exotic derivative securities
    C. Providing liquidity to the securities market
    D. Helping ensure that securities are "correctly" priced

    Section 1.5 LO 2 Difficult

17. Microeconomics studies the resource allocation decisions of ________.

    A. individual businesses, persons, or organizations
    B. national governments
    C. financial institutions
    D. small companies

    Section 1.6 LO 1 Easy

18. Macroeconomics is important to businesses because it helps them ________.

    A. better understand the overall context of the economy
    B. better understand how prices are set in the market
    C. more accurately predict future interest rates
    D. more accurately determine their costs

    Section 1.6 LO 3 Moderate

19. The market for short-term, low-risk, highly liquid securities is called the ________.

    A. capital market
    B. equity market
    C. debt market
    D. money market

    Section 1.7 LO 1 Moderate

20. What money market instrument is commonly used by high-quality corporations to raise funds over very short periods of time?

    A. Commercial paper
    B. Treasury bills
    C. Federal funds
    D. Certificates of deposit

    Section 1.7 LO 2 Difficult

21. What is the key difference between money market instruments and capital market instruments?

    A. Their credit rating
    B. The use of their proceeds
    C. Their maturity
    D. Their collateral

    Section 1.7 LO 3 Difficult

22. Which of the following is an attractive characteristic of municipal securities (munis) for investors?

    A. Their interest is not taxable for federal return purposes, and sometimes for state and local returns too.
    B. They are less risky than federally issued securities.
    C. They normally offer higher returns than stock investments.
    D. They can be customized for individual investors.

    Section 1.7 LO 3 Moderate

23. Which of the following characteristics would an investor place a greater priority on for a short-term investment than for a long-term investment?

    A. Length of the investment period
    B. Liquidity of the investment
    C. How often the investment rate compounds
    D. Tax considerations

    Section 1.8 LO 1 Difficult