

Finance hw

Finance



Question Which of the following would indicate an improvement in a company's financial position, holding other things constant? a. The inventory and total assets turnover ratios both decline.

b. The debt ratio increases.

c. The profit margin declines.

d. The current and quick ratios both increase.

Question 2

Which of the following statements is CORRECT?

a. The term "IPO" stands for Introductory Price Offered, and it is the price at which shares of a new company are offered to the public.

b. IPO prices are generally established by the market, and buyers of the new stock must pay the price that prevails at the close of trading on the day the stock is offered to the public.

c. In a "Dutch auction," investors who want to buy shares in an IPO submit bids indicating how many shares they want to buy and the price they are willing to pay. The company determines how many shares it wants to sell. The highest price that enables the company to sell the desired number of shares is the price that all buyers must pay.

d. It is possible that the price set in an IPO is so high that investors will

refuse to buy the number of shares that the company wants to sell. In that case, the company is said to have "left money on the table."

Question 3

Other things held constant, which of the following actions would increase the amount of cash on a company's balance sheet?

- a. The company repurchases common stock.
- b. The company pays a dividend.
- c. The company issues new common stock.
- d. The company gives customers more time to pay their bills.

Question 4

The expected return on Natter Corporation's stock is 14%. The stock's dividend is expected to grow at a constant rate of 8%, and it currently sells for \$50 a share. Which of the following statements is CORRECT?

- a. The stock's dividend yield is 7%.
- b. The stock's dividend yield is 8%.
- c. The current dividend per share is \$4.00.
- d. The stock price is expected to be \$54 a share one year from now.

Question 5

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Which of the following statements is CORRECT?

- a. A zero coupon bonds current yield is equal to its yield to maturity.
- b. If a bond s yield to maturity exceeds its coupon rate, the bond will sell at par.
- c. All else equal, if a bond s yield to maturity increases, its price will fall.
- d. If a bond s yield to maturity exceeds its coupon rate, the bond will sell at a premium over par.

Question 6

Which of the following events would make it more likely that a company would call its outstanding callable bonds?

- a. The company s bonds are downgraded.
- b. Market interest rates rise sharply.
- c. Market interest rates decline sharply.
- d. The companys financial situation deteriorates significantly.

Question 7

Which of the following items is NOT normally considered to be a current asset?

a. Accounts receivable.

b. Inventory.

c. Bonds.

d. Cash.

Question 8

Which of the following statements is NOT CORRECT?

a. When a corporation's shares are owned by a few individuals, we say that the firm is "closely, or privately, held."

b. "Going public" establishes a firm's true intrinsic value and ensures that a liquid market will always exist for the firm's shares.

c. The stock of publicly owned companies must generally be registered with and reported to a regulatory agency such as the SEC.

d. When stock in a closely held corporation is offered to the public for the first time, the transaction is called "going public, or an IPO," and the market for such stock is called the new issue or IPO market.

Question 9

Which of the following is NOT a capital component when calculating the weighted average cost of capital (WACC) for use in capital budgeting?

a. Long-term debt.

b. Accounts payable.

c. Retained earnings.

d. Common stock.

Question 10

Which of the following would be most likely to lead to a higher level of interest rates in the economy?

a. Households start saving a larger percentage of their income.

b. Corporations step up their expansion plans and thus increase their demand for capital.

c. The level of inflation begins to decline.

d. The economy moves from a boom to a recession.

Question 11

Inflation, recession, and high interest rates are economic events that are best characterized as being

a. systematic risk factors that can be diversified away.

b. company-specific risk factors that can be diversified away.

- c. among the factors that are responsible for market risk.
- d. risks that are beyond the control of investors and thus should not be considered by security analysts or portfolio managers.

Question 12

Which of the following statements is CORRECT?

- a. A change in a company's target capital structure cannot affect its WACC.
- b. WACC calculations should be based on the before-tax costs of all the individual capital components.
- c. Flotation costs associated with issuing new common stock normally reduce the WACC.
- d. If a company's tax rate increases, then, all else equal, its weighted average cost of capital will decline.

Question 13

Assume that the risk-free rate is 6% and the market risk premium is 5%.

Given this information, which of the following statements is CORRECT?

- a. An index fund with $\beta = 1.0$ should have a required return of 11%.
- b. If a stock has a negative beta, its required return must also be negative.
- c. An index fund with $\beta = 1.0$ should have a required return less than

11%.

d. If a stocks beta doubles, its required return must also double.

Question 14

Which of the following statements is CORRECT?

a. A hostile takeover is the main method of transferring ownership interest in a corporation.

b. A corporation is a legal entity created by a state, and it has a life and existence that is separate from the lives and existence of its owners and managers.

c. Unlimited liability and limited life are two key advantages of the corporate form over other forms of business organization.

d. Limited liability is an advantage of the corporate form of organization to its owners (stockholders), but corporations have more trouble raising money in financial markets because of the complexity of this form of organization.

Question 15

The primary operating goal of a publicly-owned firm interested in serving its stockholders should be to

a. Maximize its expected total corporate income.

b. Maximize its expected EPS.

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c. Minimize the chances of losses.

d. Maximize the stock price per share over the long run, which is the stock's intrinsic value.

Question 16

Suppose a State of New York bond will pay \$1,000 ten years from now. If the going interest rate on these 10-year bonds is 5.5%, how much is the bond worth today?

a. \$585.43

b. \$614.70

c. \$645.44

d. \$677.71

Question 17

Sue now has \$125. How much would she have after 8 years if she leaves it invested at 8.5% with annual compounding?

a. \$205.83

b. \$216.67

c. \$228.07

d. \$240.08

Question 18

Companies E and P each reported the same earnings per share (EPS), but Company E's stock trades at a higher price. Which of the following statements is CORRECT?

- a. Company E probably has fewer growth opportunities.
- b. Company E is probably judged by investors to be riskier.
- c. Company E must have a higher market-to-book ratio.
- d. Company E trades at a higher P/E ratio.

Question 19

Which of the following is an example of a capital market instrument?

- a. Commercial paper.
- b. Preferred stock.
- c. U. S. Treasury bills.
- d. Bankers acceptances.

Question 20

Schalheim Sisters Inc. has always paid out all of its earnings as dividends,
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hence the firm has no retained earnings. This same situation is expected to persist in the future. The company uses the CAPM to calculate its cost of equity, its target capital structure consists of common stock, preferred stock, and debt. Which of the following events would REDUCE its WACC?

- a. The market risk premium declines.
- b. The flotation costs associated with issuing new common stock increase.
- c. The company's beta increases.
- d. Expected inflation increases.