Pecking order theory essay

Brigham Concise 4th Edition Chapter 1: An Overview of Financial Management 1. Which of the following are among the three main areas of finance? a. financial institutions b. investments c. financial management d. all of the above are correct e. none of the above are correct d. Correct. 2. The globalization of business and the increased use of information technology are the two key trends in financial management today. a. True b. False a. True 3. Which of the following could explain why a business might choose to organize as a corporation rather than as a sole proprietorship or a partnership? a. Corporations generally face fewer regulations. . Corporations generally face lower taxes. c. Corporations generally find it easier to raise capital. d. Corporations enjoy unlimited liability. e. All of the above statements are correct. c. Correct. 4. A partnership is subject to the same taxation as corporations. a. True b. False b. False 5. One main disadvantage of partnerships is the requirement of a charter and set of bylaws. a. True b. False b. False 6. One disadvantage of the sole proprietorship form of organization is that there is: a. unlimited liability. b. double taxation c. more regulations than for corporations d. easy transferability of ownership interest . all of the above are correct. a. Correct 7. A corporate charter should include which of the following: a. name of the proposed corporation b. type of activities it will pursue c. amount of capital stock d. number of directors e. names and addresses of directors f. all of the above f. Correct. 8. One reason that the value of most businesses is maximized if they are organized as a corporation is that: a. corporations face unlimited liability. b. it is easier to transfer ownership of a corporation (corporations are more liquid assets). c. corporations have a more difficult time raising capital than sole proprietorships. d.

All of the above b. Correct 9. Which of the following represents a significant disadvantage to the corporate form of organization? a. Difficulty in transferring ownership. b. Exposure to taxation of corporate earnings and stockholder dividend income. c. Degree of liability to which corporate owners and managers are exposed. d. Difficulty corporations face in obtaining large amounts of capital in financial markets. b. Correct 10. The chief financial officer (CFO) is usually the highest ranking officer in a corporation. a. True b. False b. False 11. The activities of the financial staff include: a. forecasting and planning. b. ajor investment and financing decisions. c. dealing with financial markets. d. risk management. e. all of the above. e. Correct. 12. The financial vice-president’s key subordinates are the president and the chief executive officer. a. True. b. False b. FAlse. 13. In most firms the treasurer has the responsibility for managing the firm’s cash and marketable securities, for planning its capital structure, for selling stocks and bonds to raise capital, for overseeing the corporate pension plan, and for managing risk. a. True b. False a. True 14. The primary goal of a publicly-owned firm interested in serving its stockholders should be to: a.

Maximize expected total corporate profit. b. Maximize expected EPS. c. Minimize the chances of losses. d. Maximize the stock price per share. e. Maximize expected net income. d. Correct 15. Managers that depart from the goal of shareholder wealth maximization run the risk of being removed from their jobs. a. True b. False a. True. 16. Most actions that help a firm increase the price of its stock also benefit society at large. a. True b. False a. True. 17. The primary contribution of finance to total social welfare is its: a. Function as a productive resource. b. Contribution to the efficient allocation and use of resources. c.

Role as an exogenous variable. d. Positive impact on the externalities of " other variables. " e. Contribution to environmental protection. b. Correct 18. Most firms today have in place strong codes of ethical behavior, yet there are no obvious answers for many of the ethical questions facing many companies. a. True b. False a. True. 19. Socially responsible actions that increase costs may have to be put on a mandatory basis. a. True b. False a. True. 20. An agency relationship arises whenever one or more individuals hire another individual or organization to perform some service and delegate decision-making authority to that agent. . True b. False. a. True. 21. In financial management the primary agency relationships are those between: a. stockholders and managers b. managers and debtholders c. managers with similar levels of authority within the firm d. a and b e. a, b, and c d. Correct 22. Which of the following work to reduce agency conflicts between stockholders and bondholders? a. Including restrictive covenants in the company's bond contract. b. Providing managers with a large number of stock options. c. The passage of laws that make it easier for companies to resist hostile takeovers. d.

All of the statements above are correct. a. Correct 23. Which of the following actions are likely to reduce agency conflicts between stockholders and managers? a. Paying managers a large fixed salary. b. Increasing the threat of corporate takeover. c. Placing restrictive covenants in debt agreements. d. All of the statements above are correct. b. Correct 24. The managers should always undertake actions that result in a transfer of wealth from bondholders to stockholders. a. True b. False b. False. 25. Which of the following factors tend to encourage management to pursue stock price maximization as a goal? . Shareholders link management's compensation to company performance. b. Managers' reactions to the threat of firing and hostile takeovers. c. Statements a and b are both correct. c. Correct. 26. Mechanisms used to motivate managers to act in shareholders' best interests include: a. managerial compensation b. direct intervention by shareholders c. the threat of firing d. the threat of takeovers e. all of the above e. Correct. 27. Creditors lend funds at rates that are based on: a. riskiness of the firm's existing assets b. expectations concerning the riskiness of future asset additions c. he firm's existing capital structure d. expectations concerning future capital structure decisions e. all of the above e. Correct. 28. The dividend policy decision is the way the firm is funded (e. g. , the mix of debt and equity used). a. True Incorrect. The dividend policy decision is the choice of how much of earnings to pay out as dividends and how much to retain to reinvest in the firm. b. False b. False. 29. Managerial actions are the only determinant of a firm's stock value. a. True False. b. False. 30. If the firm maximizes EPS, it will maximize stockholder wealth. a. True b. False b. False.