Chapter 06

1. Which of the following is *not* one of the things that causes a corporation to have a significant advantage over a partnership or a proprietorship?
   a. Limited liability.
   b. Ease of transfer of ownership interest.
   c. Unlimited life.
   d. Elimination of double taxation.
   e. Ability to retain earnings and thus convert income from personal income to capital gains.

2. Which of the following mechanisms is *not* used by shareholders to get managers to act in shareholders' best interests?
   a. Threat of firing.
   b. Managerial compensation.
   c. Performance shares.
   d. Threat of takeover.
   e. Answers b and c above.

3. Which of the following statements is correct?
   a. A good goal for a corporate manager is maximization of expected EPS.
   b. Most business in the U.S. is conducted by corporations; corporations' popularity results primarily from their favorable tax treatment.
   c. A good example of an agency relationship is the one between stockholders and managers.
   d. Corporations and partnerships have an advantage over proprietorships because a sole proprietor is subject to unlimited liability, but investors in the other types of businesses are not.
   e. Firms in highly competitive industries find it easier to exercise "social responsibility" than do firms in oligopolistic industries.

4. Multinational managerial finance requires that
   a. The effects of changing currency values be included in financial analyses.
   b. Legal and economic differences be considered in financial decisions.
   c. Political risk be excluded from multinational corporate financial analyses.
   d. All of the above.
   e. Only a and b above.

5. Which of the following statements is correct?
   a. Given the multi-owner nature of most large corporations, agency costs associated with perquisite consumption are not really a problem.
   b. Managers may operate in the stockholders' best interests, but they may also operate in their own personal best interests. As long as managers stay within the law, there simply are not any effective controls that stockholders can implement to control managerial decision making.
   c. Shareholder agency costs include the opportunity costs associated with constraining managerial freedom but do not include managerial salaries.
   d. An agency relationship exists when one or more persons hire another person to perform some service but *withhold decision-making authority from that person*.

e. All of the above statements are false.

6. Carter Corporation has some money to invest, and its treasurer is choosing between City of Chicago municipal bonds and U.S. Treasury bonds. Both have the same maturity, and they are equally risky and liquid. If Treasury bonds yield 6 percent, and Carter's marginal income tax rate is 40 percent, what yield on the Chicago municipal bonds would make Carter's treasurer indifferent between the two?

a. 2.40%
b. 3.60%
c. 4.50%
d. 5.25%
e. 6.00%

7. As a corporate investor paying a marginal tax rate of 34 percent, if 70 percent of dividends are excludable, what would be your after-tax dividend yield on preferred stock with a 16 percent before-tax dividend yield?

a. 6.36%
b. 7.36%
c. 12.19%
d. 13.01%
e. 14.37%

8. A corporation with a marginal tax rate of 34 percent would receive what *after-tax* dividend yield on a 12 percent coupon rate preferred stock bought at par, assuming a 70 percent dividend exclusion?

a. 11.03%
b. 10.78%
c. 6.48%
d. 7.31%
e. 5.52%

9. Which of the following is not a limitation of the proprietorship form of business?

a. Unlimited personal liability
b. Difficulty raising capital
c. Double taxation
d. Difficulty in transferring ownership
e. Limited life

10. Which of the following is not a disadvantage of forming a business as a partnership?

a. Unlimited liability for the owners.
b. Limited life of the organization.
c. Difficulty of transferring ownership.
d. Difficulty in raising capital.
e. Business is taxed like an individual.

11. ____ decisions are decisions about how much and what types of debt and equity should be used to finance the firm.
    a. Capital structure
    b. Capital budgeting
    c. Dividend policy
    d. Risk tolerance

12. ____ decisions are decisions as to what types of assets should be purchased to help generate cash flows.
    a. Capital structure
    b. Capital budgeting
    c. Dividend policy
    d. Repurchase

13. ____ decisions are decisions as to how much of current earnings to pay out as dividends rather than to retain for reinvestment in the firm.
    a. Capital structure
    b. Capital budgeting
    c. Dividend policy
    d. Investment

14. Managers can increase the value of a firm by making decisions that
    a. increase the future cash flows of the firm.
    b. increase the amount of time required to generate future cash flows.
    c. increase the riskiness of future cash flows.
    d. decrease the liquidity of the firm's securities.

15. Which of the following are important in determining the value of the firm?
    a. Expected future cash flows.
    b. Timing of future cash flows.
    c. Riskiness of future cash flows.
    d. All of the above.

16. Which of the following is not an advantage of a proprietorship?
    a. Inexpensive to form
    b. Not regulated heavily
    c. Unlimited liability
    d. Taxed like an individual

17. All of the following are advantages of a corporation except

a. unlimited life
b. limited liability
c. easy transfer of ownership
d. All of the above are advantages

18. Most executives believe that there is a positive correlation between ethics and long-run profitability because ethical behavior does all of the following *except*
a. avoids fines and legal expenses.
b. reduces corporate taxes
c. attracts business from customers who appreciate and support ethical policies.
d. attracts and keeps employees of the highest caliber.

19. Managers of a firm can increase the value of a firm by
a. increasing the size of the cash inflows.
b. reducing the riskiness of the cash flows.
c. speeding up the timing of the cash flows.
d. all of the above will increase the value of the firm.

20. Profit maximization does not always lead to wealth maximization because
a. it does not consider the riskiness of the cash flows.
b. it does not consider the timing of the cash flows.
c. it does not consider the size of the cash flows.
d. two of the above are correct.
e. all of the above are correct