

ch1

Student: _____

Multiple Choice Questions

1. The person generally directly responsible for overseeing the tax management, cost accounting, financial accounting, and data processing functions is the:
 - A. treasurer.
 - B. director.
 - C. controller.
 - D. chairman of the board.
 - E. chief executive officer.

2. The person generally directly responsible for overseeing the cash and credit functions, financial planning, and capital expenditures is the:
 - A. treasurer.
 - B. director.
 - C. controller.
 - D. chairman of the board.
 - E. chief operations officer.

3. The process of identifying projects which will produce positive cash flows is called:
 - A. working capital management.
 - B. financial depreciation.
 - C. agency cost analysis.
 - D. capital budgeting.
 - E. capital structure.

4. The mix of debt and equity capital for a firm is referred to as the firm's:
 - A. working capital management.
 - B. cash management.
 - C. cost analysis.
 - D. capital budgeting.
 - E. capital structure.

5. The management of a firm's short-term assets and liabilities is called:

- A. working capital management.
- B. debt management.
- C. equity management.
- D. capital budgeting.
- E. capital structure.

6. A business owned by a solitary individual is called a:

- A. corporation.
- B. sole proprietorship.
- C. general partnership.
- D. limited partnership.
- E. limited liability company.

7. A business formed by two or more individuals who each have unlimited liability for all of the firm's business debts is called a:

- A. corporation.
- B. sole proprietorship.
- C. general partnership.
- D. limited partnership.
- E. limited liability company.

8. The division of profits and losses among the members of a partnership is formalized in the:

- A. indemnity clause.
- B. indenture contract.
- C. statement of purpose.
- D. partnership agreement.
- E. group charter.

9. A business partner whose potential financial loss in the firm will not exceed his or her investment is called a:

- A. generally partner.
- B. sole proprietor.
- C. limited partner.
- D. corporate partner.
- E. zero partner.

10. A business created as a distinct legal entity composed of one or more individuals or entities is called a:

- A. corporation.
- B. sole proprietorship.
- C. general partnership.
- D. limited partnership.
- E. unlimited liability company.

11. The business purpose and intended life of a corporation are set forth in the:

- A. indenture agreement.
- B. tax agreement.
- C. corporate bylaws.
- D. corporate charter.
- E. articles of incorporation.

12. The rules governing the method of electing corporate directors are called:

- A. indenture provisions.
- B. indemnity provisions.
- C. charter agreements.
- D. bylaws.
- E. articles of incorporation.

13. A business entity which taxes its owners like partners while providing those owners with limited liability is called a:

- A. limited liability company.
- B. general partnership.
- C. limited proprietorship.
- D. sole proprietorship.
- E. corporation.

14. A conflict of interest between the stockholders and company management is called:

- A. stockholders' liability.
- B. corporate breakdown.
- C. the agency problem.
- D. corporate activism.
- E. legal liability.

15. Agency costs refer to:

- A. the total dividends paid to stockholders over the lifetime of a firm.
- B. the costs that result from default and bankruptcy of a firm.
- C. corporate income subject to double taxation.
- D. the costs of any conflicts of interest between stockholders and management.
- E. the total interest paid to creditors over the lifetime of the firm.

16. A stakeholder is:

- A. any person or entity that owns shares of stock of a corporation.
- B. any person or entity that has voting rights based on stock ownership of a corporation.
- C. a person who initially started a firm and currently has management control over the cash flows of the firm due to his/her current ownership of company stock.
- D. a creditor to whom the firm currently owes money and who consequently has a claim on the cash flows of the firm.
- E. any person or entity other than a stockholder or creditor who potentially has a claim on the cash flows of the firm.

17. The primary market is the market in which:

- A. trades occur on the floor of the NYSE only.
- B. shareholders who are also company officers offer their securities for sale.
- C. newly issued securities are offered for sale.
- D. all securities which are included in the Dow Jones Industrial Average (DJIA) must trade.
- E. a particular security tends to trade the most frequently.

18. The secondary market is the market in which:

- A. the sale proceeds of a trade flow to the issuer of the security.
- B. one shareholder sells securities to another shareholder.
- C. publicly held firms issue new shares of stock.
- D. only bonds or other debt securities are sold.
- E. trades occur on exchanges other than the New York Stock Exchange.

19. A secondary market where an individual or entity buys and sells for themselves at their own risk is called a _____ market.

- A. primary
- B. secondary
- C. dealer
- D. auction
- E. liquidation

20. A market where brokers and agents match buyers with sellers is called a(n):

- A. primary market.
- B. OTC market.
- C. dealer market.
- D. auction market.
- E. liquidation market.

21. Which of the following questions are addressed by financial managers?

- I. How long will it take to produce a product?
 - II. Should customers be given 30 or 45 days to pay for their credit purchases?
 - III. Should the firm borrow more money?
 - IV. Should the firm acquire new equipment?
- A. I and IV only
 - B. II and III only
 - C. I, II, and III only
 - D. II, III, and IV only
 - E. I, II, III, and IV

22. The treasurer of a corporation generally reports to the:

- A. controller.
- B. chairman of the board.
- C. chief executive officer.
- D. president.
- E. vice president of finance.

23. Which one of the following correctly defines the chain of command in a typical corporate organizational structure?

- A. The vice president of finance reports to the chairman of the board.
- B. The chief executive officer reports to the board of directors.
- C. The controller reports to the president.
- D. The treasurer reports to the chief executive officer.
- E. The chief operations officer reports to the vice president of production.

24. Which one of the following is a capital budgeting decision?

- A. determining how much debt should be borrowed from a particular lender
- B. deciding whether or not to open a new store
- C. deciding when to repay a long-term debt
- D. determining how much inventory to keep on hand
- E. determining how much money should be kept in the checking account

25. When considering a capital budgeting project the financial manager should consider the:

- I. size of the project.
- II. timing of the project's cash flows.
- III. risk associated with the project's cash flows.

- A. I only
- B. II only
- C. I and III only
- D. II and III only
- E. I, II, and III

26. Capital structure decisions include which of the following?

- A. determining the number of shares of stock to issue
- B. determining whether the firm should purchase or lease some equipment
- C. allocating funds to the various divisions within the firm
- D. evaluating the size of inventory to be kept on hand
- E. evaluating the customer credit policy

27. The decision to issue debt rather than additional shares of stock is an example of:

- A. working capital management.
- B. a net working capital decision.
- C. capital budgeting.
- D. a controller's duties.
- E. the capital structure decision.

28. Working capital management includes decisions concerning which of the following?

- I. accounts payable
 - II. long-term debt
 - III. accounts receivable
 - IV. inventory
- A. I and II only
 - B. I and III only
 - C. II and IV only
 - D. I, II, and III only
 - E. I, III, and IV only

29. Working capital management:

- A. ensures that sufficient equipment is available to produce the amount of product desired on a daily basis.
- B. ensures that long-term debt is acquired at the lowest possible cost.
- C. ensures that dividends are paid to all stockholders on an annual basis.
- D. balances the amount of company debt to the amount of available equity.
- E. is concerned with having sufficient funds to operate the business on a daily basis.

30. Which one of the following statements concerning a sole proprietorship is correct?
- A. A sole proprietorship is designed to protect the personal assets of the owner.
 - B. The profits of a sole proprietorship are taxed twice.
 - C. The owners of a sole proprietorship share profits as established by the partnership agreement.
 - D. The owner of a sole proprietorship may be forced to sell his or her personal assets to pay company debts.
 - E. A sole proprietorship is often structured as a limited liability company.

31. Which one of the following statements concerning a sole proprietorship is correct?
- A. The life of a sole proprietorship is limited to the life span of the owner.
 - B. A sole proprietor can generally raise large sums of capital quite easily.
 - C. The ownership of a sole proprietorship is easy to transfer to another individual.
 - D. A sole proprietorship must pay taxes separate from the taxes paid by the owner.
 - E. The legal costs to form a sole proprietorship are quite substantial.

32. Which one of the following best describes the primary advantage of being a limited partner rather than a general partner?
- A. entitlement to a larger portion of the partnership's income
 - B. ability to manage the day-to-day affairs of the business
 - C. no potential financial loss
 - D. greater management responsibility
 - E. liability for firm debts is limited to the capital invested

33. A general partner:
- A. has less legal liability than a limited partner.
 - B. has more management responsibility than a limited partner.
 - C. faces double taxation whereas a limited partner does not.
 - D. cannot lose more than the amount he or she invested in the entity.
 - E. is the term applied strictly to corporations which invest in partnerships.

34. A partnership:
- A. is taxed the same as a corporation.
 - B. agreement defines whether the business income will be taxed like a partnership or a corporation.
 - C. terminates at the death of any general partner.
 - D. has less of an ability to raise capital than a sole proprietorship.
 - E. can consist solely of limited partners.

35. Which of the following are disadvantages of a partnership?

- I. limited life of the firm
 - II. personal liability for firm debt
 - III. greater ability to raise capital than a sole proprietorship
 - IV. lack of ability to transfer partnership interest
- A. I and II only
 - B. III and IV only
 - C. II and III only
 - D. I, II, and IV only
 - E. I, III, and IV only

36. Which of the following are advantages of the corporate form of business ownership?

- I. limited liability for firm debt
 - II. double taxation
 - III. ability to raise capital
 - IV. unlimited firm life
- A. I and II only
 - B. III and IV only
 - C. I, II, and III only
 - D. II, III, and IV only
 - E. I, III, and IV only

37. Which one of the following statements is correct concerning corporations?

- A. The largest firms are usually corporations.
- B. The majority of firms are corporations.
- C. The stockholders are usually the managers of a corporation.
- D. The ability of a corporation to raise capital is quite limited.
- E. The income of a corporation is taxed as personal income of the stockholders.

38. Which one of the following statements is correct?

- A. Both partnerships and corporations incur double taxation.
- B. Both sole proprietorships and partnerships are taxed in a similar fashion.
- C. Partnerships are the most complicated type of business to form.
- D. Both partnerships and corporations have bylaws.
- E. All types of business formations have limited lives.

39. The articles of incorporation:

- A. can be used to remove company management.
- B. are amended annually by the company stockholders.
- C. set forth the number of shares of stock that can be issued.
- D. set forth the rules by which a corporation regulates its existence.
- E. set forth which parties will be general and which will be limited partners.

40. The bylaws:

- A. establish the name of a corporation.
- B. are rules which apply only to limited liability companies.
- C. set forth the purpose of a firm.
- D. mandate the procedure for electing corporate directors.
- E. set forth the procedure by which the stockholders elect the senior managers of a firm.

41. The owners of a limited liability company prefer:

- A. being taxed like a corporation.
- B. having liability exposure similar to that of a sole proprietor.
- C. being taxed personally on all business income.
- D. having liability exposure similar to that of a general partner.
- E. being taxed like a corporation with liability like a partnership.

42. Which one of the following business types is best suited to raising large amounts of capital?

- A. sole proprietorship
- B. limited liability company
- C. corporation
- D. general partnership
- E. limited partnership

43. Which type of business organization has all the respective rights and privileges of a legal person?

- A. sole proprietorship
- B. general partnership
- C. limited partnership
- D. corporation
- E. limited liability company

44. The primary goal of financial management is to:

- A. maximize current dividends per share of the existing stock.
- B. maximize the current value per share of the existing stock.
- C. avoid financial distress.
- D. minimize operational costs and maximize firm efficiency.
- E. maintain steady growth in both sales and net earnings.

45. Financial managers should strive to maximize the current value per share of the existing stock because:

- A. doing so guarantees the company will grow in size at the maximum possible rate.
- B. doing so increases the salaries of all the employees.
- C. they have been hired for the purpose of representing the interest of the current shareholders.
- D. doing so means the firm is growing in size faster than its competitors.
- E. the managers often receive shares of stock as part of their compensation.

46. The decisions made by financial managers should all be ones which increase the:

- A. size of the firm.
- B. growth rate of the firm.
- C. marketability of the managers.
- D. market value of the existing owners' equity.
- E. financial distress of the firm.

47. The Sarbanes-Oxley Act of 2002 is a governmental response to:

- A. increased federal taxes.
- B. the terrorists attacks on 9/11/2001.
- C. decreasing corporate dividend payments.
- D. new stock trading regulations by the stock exchanges.
- E. corporate scandals.

48. The Sarbanes-Oxley Act of 2002:

- A. imposed insignificant compliance costs on smaller corporations.
- B. caused some firms to "go dark".
- C. increases the ability of corporate officers to borrow money from their employer.
- D. required that the smaller firms on the NYSE be delisted.
- E. protects the management of a firm from the firm's shareholders.

49. A firm which opts to "go dark" in response to the Sarbanes-Oxley Act:

- A. must continue to provide audited financial statements which have been signed by the corporate officers.
- B. must continue to provide a detailed list of internal control deficiencies on an annual basis.
- C. can, and mostly likely will, provide less information to its shareholders than it did prior to the act.
- D. can continue trading their stock on the stock exchanges.
- E. will rarely experience any resulting change in the price of their stock.

50. Which one of the following actions by a financial manager creates an agency problem?

- A. refusing to borrow money when doing so will create losses for the firm
- B. refusing to lower selling prices if doing so will reduce the net profits
- C. agreeing to expand the company at the expense of stockholders' value
- D. agreeing to pay bonuses based on the market value of the company stock
- E. increasing current costs in order to increase the market value of the stockholders' equity

51. Which of the following help convince managers to work in the best interest of the stockholders?

- I. compensation based on the value of the stock
 - II. stock option plans
 - III. threat of a company takeover
 - IV. threat of a proxy fight
- A. I and II only
 - B. III and IV only
 - C. I, II, and III only
 - D. I, III, and IV only
 - E. I, II, III, and IV

52. Which form of business structure faces the greatest agency problems?

- A. sole proprietorship
- B. general partnership
- C. limited partnership
- D. corporation
- E. limited liability company

53. Which of the following are agency costs?

- I. forgoing an investment opportunity which would add to the market value of the owner's equity
 - II. paying a dividend to each of the existing shareholders
 - III. purchasing new equipment which increases the value of each share of stock
 - IV. hiring outside auditors to verify the accuracy of the company financial statements
- A. II and III only
 - B. I and III only
 - C. I and IV only
 - D. II and IV only
 - E. I, II, and IV only

54. Which one of the following parties is considered a stakeholder of a firm?

- A. employee
- B. short-term creditor
- C. long-term creditor
- D. preferred stockholder
- E. common stockholder

55. Which of the following represent cash outflows from a firm?

- I. issuance of securities
 - II. payment of dividends
 - III. new loan proceeds
 - IV. payment of government taxes
- A. I and III only
 - B. II and IV only
 - C. I and IV only
 - D. I, II, and IV only
 - E. II, III, and IV only

56. Which of the following represent means by which cash flows from a corporation back into the financial markets?

- I. repayment of long-term debt
 - II. payment of government taxes
 - III. payment of loan interest
 - IV. sale of corporate stock
- A. I and II only
 - B. I and III only
 - C. II and IV only
 - D. I, III, and IV only
 - E. I, II, and III only

57. Which one of the following is a primary market transaction?

- A. a dealer selling shares of stock to an individual investor
- B. a dealer buying newly issued shares of stock from a corporation
- C. an individual investor selling shares of stock to another individual
- D. a bank selling shares of a medical firm to an individual
- E. a sole proprietor buying shares of stock from an individual investor

58. The transfer of ownership of outstanding shares of a NYSE listed stock:

- A. takes place in the primary market.
- B. occurs in a dealer market.
- C. is facilitated in the secondary markets.
- D. creates an immediate tax liability for both the seller and the buyer.
- E. is referred to as a private placement.

59. Which of the following statements concerning auction markets is (are) correct?

- I. NASDAQ is an auction market.
 - II. The NYSE is an auction market.
 - III. All trades involve a dealer in an auction market.
 - IV. An auction market is called an over-the-counter market.
- A. I only
 - B. II only
 - C. I and III only
 - D. II and III only
 - E. II and IV only

60. Which one of the following statements concerning stock exchanges is correct?

- A. The NYSE has more listed stocks than NASDAQ.
- B. The NYSE is a dealer market.
- C. The exchange with the strictest listing requirements is NASDAQ.
- D. Some large companies are listed on NASDAQ.
- E. Most debt securities are traded on the NYSE.

61. Dealer markets:

- A. are reserved strictly for trading debt securities.
- B. only exist outside of the United States.
- C. are called over-the-counter markets.
- D. include the American and the Pacific Stock Exchanges.
- E. list only the securities of the largest firms.

62. Which one of the following statements is correct concerning the NYSE?

- A. A firm is expected to have a market value for its publicly held shares of at least \$100 million to be listed on the NYSE.
- B. The NYSE is the largest dealer market for listed securities in the United States.
- C. The NYSE accounts for only 50 percent of the shares traded in the auction markets.
- D. Any corporation desiring to be listed on the NYSE can do so.
- E. The NYSE is an over-the-counter exchange functioning as both a primary and a secondary market.

63. Which of the following statements concerning NASDAQ are correct?

I. Most smaller firms are listed on NASDAQ rather than on the NYSE.

II. NASDAQ is an electronic market.

III. NASDAQ is an auction market.

IV. NASDAQ is an OTC market.

A. I and II only

B. I and III only

C. II and IV only

D. I, II, and IV only

E. I, II, III, and IV

Essay Questions

64. List and briefly describe the three general topic areas addressed by a financial manager.

65. What advantages does the corporate form of organization have over sole proprietorships and partnerships?

66. If the corporate form of business organization has so many advantages over the sole proprietorship, why is it so common for small businesses to initially be formed as sole proprietorships?

67. What should be the primary goal of the financial manager of a corporation? Why?

68. Explain some of the key requirements that Sarbanes-Oxley placed on publicly traded corporations.

69. In your opinion, did the Sarbanes-Oxley Act fail investors for those firms which opted to "go dark"?

70. Do you think agency problems arise in sole proprietorships or partnerships?

71. What concerns might a loan officer have when loaning funds to a sole proprietor that he or she might not have when loaning funds to a corporation?

72. Assume for a moment that the laws were changed such that stockholders in a corporation became personally liable for all corporate debts. What impact would such a change have on the functioning of the primary and secondary markets for common stock?

73. Suppose you own 100 shares of Microsoft stock which you intend to sell today. Since you will sell it in the secondary market, Microsoft will receive no direct cash flows as a consequence of your sale. Why, then, should Microsoft's management personally care about the price you get for your shares?

74. What are some of the differences between the NYSE and NASDAQ?

75. Explain the key difference between the primary market and the secondary market.

ch1 Key

Multiple Choice Questions

1. The person generally directly responsible for overseeing the tax management, cost accounting, financial accounting, and data processing functions is the:

- A. treasurer.
- B. director.
- C. controller.**
- D. chairman of the board.
- E. chief executive officer.

*Ross - Chapter 001 #1
SECTION: 1.1
TOPIC: CONTROLLER
TYPE: DEFINITIONS*

2. The person generally directly responsible for overseeing the cash and credit functions, financial planning, and capital expenditures is the:

- A. treasurer.**
- B. director.
- C. controller.
- D. chairman of the board.
- E. chief operations officer.

*Ross - Chapter 001 #2
SECTION: 1.1
TOPIC: TREASURER
TYPE: DEFINITIONS*

3. The process of identifying projects which will produce positive cash flows is called:

- A. working capital management.
- B. financial depreciation.
- C. agency cost analysis.
- D. capital budgeting.**
- E. capital structure.

*Ross - Chapter 001 #3
SECTION: 1.1
TOPIC: CAPITAL BUDGETING
TYPE: DEFINITIONS*

4. The mix of debt and equity capital for a firm is referred to as the firm's:
- A. working capital management.
 - B. cash management.
 - C. cost analysis.
 - D. capital budgeting.
 - E.** capital structure.

Ross - Chapter 001 #4
SECTION: 1.1
TOPIC: CAPITAL STRUCTURE
TYPE: DEFINITIONS

5. The management of a firm's short-term assets and liabilities is called:
- A.** working capital management.
 - B. debt management.
 - C. equity management.
 - D. capital budgeting.
 - E. capital structure.

Ross - Chapter 001 #5
SECTION: 1.1
TOPIC: WORKING CAPITAL MANAGEMENT
TYPE: DEFINITIONS

6. A business owned by a solitary individual is called a:
- A. corporation.
 - B.** sole proprietorship.
 - C. general partnership.
 - D. limited partnership.
 - E. limited liability company.

Ross - Chapter 001 #6
SECTION: 1.2
TOPIC: SOLE PROPRIETORSHIP
TYPE: DEFINITIONS

7. A business formed by two or more individuals who each have unlimited liability for all of the firm's business debts is called a:

- A. corporation.
- B. sole proprietorship.
- C. general partnership.**
- D. limited partnership.
- E. limited liability company.

Ross - Chapter 001 #7

SECTION: 1.2

TOPIC: GENERAL PARTNERSHIP

TYPE: DEFINITIONS

8. The division of profits and losses among the members of a partnership is formalized in the:

- A. indemnity clause.
- B. indenture contract.
- C. statement of purpose.
- D. partnership agreement.**
- E. group charter.

Ross - Chapter 001 #8

SECTION: 1.2

TOPIC: PARTNERSHIP AGREEMENT

TYPE: DEFINITIONS

9. A business partner whose potential financial loss in the firm will not exceed his or her investment is called a:

- A. generally partner.
- B. sole proprietor.
- C. limited partner.**
- D. corporate partner.
- E. zero partner.

Ross - Chapter 001 #9

SECTION: 1.2

TOPIC: LIMITED PARTNER

TYPE: DEFINITIONS

10. A business created as a distinct legal entity composed of one or more individuals or entities is called a:
- A.** corporation.
 - B. sole proprietorship.
 - C. general partnership.
 - D. limited partnership.
 - E. unlimited liability company.

Ross - Chapter 001 #10
SECTION: 1.2
TOPIC: CORPORATION
TYPE: DEFINITIONS

11. The business purpose and intended life of a corporation are set forth in the:
- A. indenture agreement.
 - B. tax agreement.
 - C. corporate bylaws.
 - D. corporate charter.
 - E.** articles of incorporation.

Ross - Chapter 001 #11
SECTION: 1.2
TOPIC: ARTICLES OF INCORPORATION
TYPE: DEFINITIONS

12. The rules governing the method of electing corporate directors are called:
- A. indenture provisions.
 - B. indemnity provisions.
 - C. charter agreements.
 - D.** bylaws.
 - E. articles of incorporation.

Ross - Chapter 001 #12
SECTION: 1.2
TOPIC: BYLAWS
TYPE: DEFINITIONS

13. A business entity which taxes its owners like partners while providing those owners with limited liability is called a:

- A.** limited liability company.
- B. general partnership.
- C. limited proprietorship.
- D. sole proprietorship.
- E. corporation.

Ross - Chapter 001 #13

SECTION: 1.2

TOPIC: LIMITED LIABILITY COMPANY

TYPE: DEFINITIONS

14. A conflict of interest between the stockholders and company management is called:

- A. stockholders' liability.
- B. corporate breakdown.
- C.** the agency problem.
- D. corporate activism.
- E. legal liability.

AACSB TOPIC: ETHICS

Ross - Chapter 001 #14

SECTION: 1.4

TOPIC: AGENCY PROBLEM

TYPE: DEFINITIONS

15. Agency costs refer to:

- A. the total dividends paid to stockholders over the lifetime of a firm.
- B. the costs that result from default and bankruptcy of a firm.
- C. corporate income subject to double taxation.
- D.** the costs of any conflicts of interest between stockholders and management.
- E. the total interest paid to creditors over the lifetime of the firm.

AACSB TOPIC: ETHICS

Ross - Chapter 001 #15

SECTION: 1.4

TOPIC: AGENCY COSTS

TYPE: DEFINITIONS

16. A stakeholder is:

- A. any person or entity that owns shares of stock of a corporation.
- B. any person or entity that has voting rights based on stock ownership of a corporation.
- C. a person who initially started a firm and currently has management control over the cash flows of the firm due to his/her current ownership of company stock.
- D. a creditor to whom the firm currently owes money and who consequently has a claim on the cash flows of the firm.
- E.** any person or entity other than a stockholder or creditor who potentially has a claim on the cash flows of the firm.

AACSB TOPIC: ETHICS
Ross - Chapter 001 #16
SECTION: 1.4
TOPIC: STAKEHOLDERS
TYPE: DEFINITIONS

17. The primary market is the market in which:

- A. trades occur on the floor of the NYSE only.
- B. shareholders who are also company officers offer their securities for sale.
- C.** newly issued securities are offered for sale.
- D. all securities which are included in the Dow Jones Industrial Average (DJIA) must trade.
- E. a particular security tends to trade the most frequently.

Ross - Chapter 001 #17
SECTION: 1.5
TOPIC: PRIMARY MARKET
TYPE: DEFINITIONS

18. The secondary market is the market in which:

- A. the sale proceeds of a trade flow to the issuer of the security.
- B.** one shareholder sells securities to another shareholder.
- C. publicly held firms issue new shares of stock.
- D. only bonds or other debt securities are sold.
- E. trades occur on exchanges other than the New York Stock Exchange.

Ross - Chapter 001 #18
SECTION: 1.5
TOPIC: SECONDARY MARKET
TYPE: DEFINITIONS

19. A secondary market where an individual or entity buys and sells for themselves at their own risk is called a _____ market.

- A. primary
- B. secondary
- C. dealer**
- D. auction
- E. liquidation

Ross - Chapter 001 #19

SECTION: 1.5

TOPIC: DEALER MARKET

TYPE: DEFINITIONS

20. A market where brokers and agents match buyers with sellers is called a(n):

- A. primary market.
- B. OTC market.
- C. dealer market.
- D. auction market.**
- E. liquidation market.

Ross - Chapter 001 #20

SECTION: 1.5

TOPIC: AUCTION MARKET

TYPE: DEFINITIONS

21. Which of the following questions are addressed by financial managers?

- I. How long will it take to produce a product?
 - II. Should customers be given 30 or 45 days to pay for their credit purchases?
 - III. Should the firm borrow more money?
 - IV. Should the firm acquire new equipment?
- A. I and IV only
 - B. II and III only
 - C. I, II, and III only
 - D. II, III, and IV only**
 - E. I, II, III, and IV

Ross - Chapter 001 #21

SECTION: 1.1

TOPIC: FINANCIAL MANAGEMENT

TYPE: CONCEPTS

22. The treasurer of a corporation generally reports to the:

- A. controller.
- B. chairman of the board.
- C. chief executive officer.
- D. president.
- E.** vice president of finance.

Ross - Chapter 001 #22

SECTION: 1.1

TOPIC: ORGANIZATIONAL STRUCTURE

TYPE: CONCEPTS

23. Which one of the following correctly defines the chain of command in a typical corporate organizational structure?

- A. The vice president of finance reports to the chairman of the board.
- B.** The chief executive officer reports to the board of directors.
- C. The controller reports to the president.
- D. The treasurer reports to the chief executive officer.
- E. The chief operations officer reports to the vice president of production.

Ross - Chapter 001 #23

SECTION: 1.1

TOPIC: ORGANIZATIONAL STRUCTURE

TYPE: CONCEPTS

24. Which one of the following is a capital budgeting decision?

- A. determining how much debt should be borrowed from a particular lender
- B.** deciding whether or not to open a new store
- C. deciding when to repay a long-term debt
- D. determining how much inventory to keep on hand
- E. determining how much money should be kept in the checking account

Ross - Chapter 001 #24

SECTION: 1.1

TOPIC: CAPITAL BUDGETING

TYPE: CONCEPTS

25. When considering a capital budgeting project the financial manager should consider the:

- I. size of the project.
- II. timing of the project's cash flows.
- III. risk associated with the project's cash flows.

- A. I only
- B. II only
- C. I and III only
- D. II and III only
- E.** I, II, and III

Ross - Chapter 001 #25

SECTION: 1.1

TOPIC: CAPITAL BUDGETING

TYPE: CONCEPTS

26. Capital structure decisions include which of the following?

- A.** determining the number of shares of stock to issue
- B. determining whether the firm should purchase or lease some equipment
- C. allocating funds to the various divisions within the firm
- D. evaluating the size of inventory to be kept on hand
- E. evaluating the customer credit policy

Ross - Chapter 001 #26

SECTION: 1.1

TOPIC: CAPITAL STRUCTURE

TYPE: CONCEPTS

27. The decision to issue debt rather than additional shares of stock is an example of:

- A. working capital management.
- B. a net working capital decision.
- C. capital budgeting.
- D. a controller's duties.
- E.** the capital structure decision.

Ross - Chapter 001 #27

SECTION: 1.1

TOPIC: CAPITAL STRUCTURE

TYPE: CONCEPTS

28. Working capital management includes decisions concerning which of the following?

- I. accounts payable
 - II. long-term debt
 - III. accounts receivable
 - IV. inventory
- A. I and II only
 - B. I and III only
 - C. II and IV only
 - D. I, II, and III only
 - E.** I, III, and IV only

Ross - Chapter 001 #28

SECTION: 1.1

TOPIC: WORKING CAPITAL MANAGEMENT

TYPE: CONCEPTS

29. Working capital management:

- A. ensures that sufficient equipment is available to produce the amount of product desired on a daily basis.
- B. ensures that long-term debt is acquired at the lowest possible cost.
- C. ensures that dividends are paid to all stockholders on an annual basis.
- D. balances the amount of company debt to the amount of available equity.
- E.** is concerned with having sufficient funds to operate the business on a daily basis.

Ross - Chapter 001 #29

SECTION: 1.1

TOPIC: WORKING CAPITAL MANAGEMENT

TYPE: CONCEPTS

30. Which one of the following statements concerning a sole proprietorship is correct?

- A. A sole proprietorship is designed to protect the personal assets of the owner.
- B. The profits of a sole proprietorship are taxed twice.
- C. The owners of a sole proprietorship share profits as established by the partnership agreement.
- D.** The owner of a sole proprietorship may be forced to sell his or her personal assets to pay company debts.
- E. A sole proprietorship is often structured as a limited liability company.

Ross - Chapter 001 #30

SECTION: 1.2

TOPIC: SOLE PROPRIETORSHIP

TYPE: CONCEPTS

31. Which one of the following statements concerning a sole proprietorship is correct?

- A.** The life of a sole proprietorship is limited to the life span of the owner.
- B. A sole proprietor can generally raise large sums of capital quite easily.
- C. The ownership of a sole proprietorship is easy to transfer to another individual.
- D. A sole proprietorship must pay taxes separate from the taxes paid by the owner.
- E. The legal costs to form a sole proprietorship are quite substantial.

Ross - Chapter 001 #31

SECTION: 1.2

TOPIC: SOLE PROPRIETORSHIP

TYPE: CONCEPTS

32. Which one of the following best describes the primary advantage of being a limited partner rather than a general partner?

- A. entitlement to a larger portion of the partnership's income
- B. ability to manage the day-to-day affairs of the business
- C. no potential financial loss
- D. greater management responsibility
- E.** liability for firm debts is limited to the capital invested

Ross - Chapter 001 #32

SECTION: 1.2

TOPIC: PARTNERSHIP

TYPE: CONCEPTS

33. A general partner:

- A. has less legal liability than a limited partner.
- B.** has more management responsibility than a limited partner.
- C. faces double taxation whereas a limited partner does not.
- D. cannot lose more than the amount he or she invested in the entity.
- E. is the term applied strictly to corporations which invest in partnerships.

Ross - Chapter 001 #33

SECTION: 1.2

TOPIC: PARTNERSHIP

TYPE: CONCEPTS

34. A partnership:

- A. is taxed the same as a corporation.
- B. agreement defines whether the business income will be taxed like a partnership or a corporation.
- C.** terminates at the death of any general partner.
- D. has less of an ability to raise capital than a sole proprietorship.
- E. can consist solely of limited partners.

Ross - Chapter 001 #34
SECTION: 1.2
TOPIC: PARTNERSHIP
TYPE: CONCEPTS

35. Which of the following are disadvantages of a partnership?

- I. limited life of the firm
 - II. personal liability for firm debt
 - III. greater ability to raise capital than a sole proprietorship
 - IV. lack of ability to transfer partnership interest
- A. I and II only
 - B. III and IV only
 - C. II and III only
 - D.** I, II, and IV only
 - E. I, III, and IV only

Ross - Chapter 001 #35
SECTION: 1.2
TOPIC: PARTNERSHIP
TYPE: CONCEPTS

36. Which of the following are advantages of the corporate form of business ownership?

- I. limited liability for firm debt
 - II. double taxation
 - III. ability to raise capital
 - IV. unlimited firm life
- A. I and II only
 - B. III and IV only
 - C. I, II, and III only
 - D. II, III, and IV only
 - E.** I, III, and IV only

Ross - Chapter 001 #36
SECTION: 1.2
TOPIC: CORPORATION
TYPE: CONCEPTS

37. Which one of the following statements is correct concerning corporations?

- A.** The largest firms are usually corporations.
- B. The majority of firms are corporations.
- C. The stockholders are usually the managers of a corporation.
- D. The ability of a corporation to raise capital is quite limited.
- E. The income of a corporation is taxed as personal income of the stockholders.

Ross - Chapter 001 #37
SECTION: 1.2
TOPIC: CORPORATION
TYPE: CONCEPTS

38. Which one of the following statements is correct?

- A. Both partnerships and corporations incur double taxation.
- B.** Both sole proprietorships and partnerships are taxed in a similar fashion.
- C. Partnerships are the most complicated type of business to form.
- D. Both partnerships and corporations have bylaws.
- E. All types of business formations have limited lives.

Ross - Chapter 001 #38
SECTION: 1.2
TOPIC: BUSINESS TYPES
TYPE: CONCEPTS

39. The articles of incorporation:

- A. can be used to remove company management.
- B. are amended annually by the company stockholders.
- C.** set forth the number of shares of stock that can be issued.
- D. set forth the rules by which a corporation regulates its existence.
- E. set forth which parties will be general and which will be limited partners.

Ross - Chapter 001 #39
SECTION: 1.2
TOPIC: ARTICLES OF INCORPORATION
TYPE: CONCEPTS

40. The bylaws:

- A. establish the name of a corporation.
- B. are rules which apply only to limited liability companies.
- C. set forth the purpose of a firm.
- D.** mandate the procedure for electing corporate directors.
- E. set forth the procedure by which the stockholders elect the senior managers of a firm.

Ross - Chapter 001 #40
SECTION: 1.2
TOPIC: BYLAWS
TYPE: CONCEPTS

41. The owners of a limited liability company prefer:
- A. being taxed like a corporation.
 - B. having liability exposure similar to that of a sole proprietor.
 - C.** being taxed personally on all business income.
 - D. having liability exposure similar to that of a general partner.
 - E. being taxed like a corporation with liability like a partnership.

Ross - Chapter 001 #41
SECTION: 1.2
TOPIC: LIMITED LIABILITY COMPANY
TYPE: CONCEPTS

42. Which one of the following business types is best suited to raising large amounts of capital?
- A. sole proprietorship
 - B. limited liability company
 - C.** corporation
 - D. general partnership
 - E. limited partnership

Ross - Chapter 001 #42
SECTION: 1.2
TOPIC: CORPORATION
TYPE: CONCEPTS

43. Which type of business organization has all the respective rights and privileges of a legal person?
- A. sole proprietorship
 - B. general partnership
 - C. limited partnership
 - D.** corporation
 - E. limited liability company

Ross - Chapter 001 #43
SECTION: 1.2
TOPIC: CORPORATION
TYPE: CONCEPTS

44. The primary goal of financial management is to:
- A. maximize current dividends per share of the existing stock.
 - B.** maximize the current value per share of the existing stock.
 - C. avoid financial distress.
 - D. minimize operational costs and maximize firm efficiency.
 - E. maintain steady growth in both sales and net earnings.

AACSB TOPIC: ETHICS
Ross - Chapter 001 #44
SECTION: 1.3
TOPIC: FINANCIAL MANAGEMENT GOAL
TYPE: CONCEPTS

45. Financial managers should strive to maximize the current value per share of the existing stock because:

- A. doing so guarantees the company will grow in size at the maximum possible rate.
- B. doing so increases the salaries of all the employees.
- C.** they have been hired for the purpose of representing the interest of the current shareholders.
- D. doing so means the firm is growing in size faster than its competitors.
- E. the managers often receive shares of stock as part of their compensation.

AACSB TOPIC: ETHICS

Ross - Chapter 001 #45

SECTION: 1.3

TOPIC: GOAL OF FINANCIAL MANAGEMENT

TYPE: CONCEPTS

46. The decisions made by financial managers should all be ones which increase the:

- A. size of the firm.
- B. growth rate of the firm.
- C. marketability of the managers.
- D.** market value of the existing owners' equity.
- E. financial distress of the firm.

AACSB TOPIC: ETHICS

Ross - Chapter 001 #46

SECTION: 1.3

TOPIC: GOAL OF FINANCIAL MANAGEMENT

TYPE: CONCEPTS

47. The Sarbanes-Oxley Act of 2002 is a governmental response to:

- A. increased federal taxes.
- B. the terrorists attacks on 9/11/2001.
- C. decreasing corporate dividend payments.
- D. new stock trading regulations by the stock exchanges.
- E.** corporate scandals.

AACSB TOPIC: ETHICS

Ross - Chapter 001 #47

SECTION: 1.3

TOPIC: SARBANES-OXLEY

TYPE: CONCEPTS

48. The Sarbanes-Oxley Act of 2002:

- A. imposed insignificant compliance costs on smaller corporations.
- B.** caused some firms to "go dark".
- C. increases the ability of corporate officers to borrow money from their employer.
- D. required that the smaller firms on the NYSE be delisted.
- E. protects the management of a firm from the firm's shareholders.

AACSB TOPIC: ETHICS
Ross - Chapter 001 #48
SECTION: 1.3
TOPIC: SARBANES-OXLEY
TYPE: CONCEPTS

49. A firm which opts to "go dark" in response to the Sarbanes-Oxley Act:

- A. must continue to provide audited financial statements which have been signed by the corporate officers.
- B. must continue to provide a detailed list of internal control deficiencies on an annual basis.
- C.** can, and mostly likely will, provide less information to its shareholders than it did prior to the act.
- D. can continue trading their stock on the stock exchanges.
- E. will rarely experience any resulting change in the price of their stock.

AACSB TOPIC: ETHICS
Ross - Chapter 001 #49
SECTION: 1.3
TOPIC: SARBANES-OXLEY
TYPE: CONCEPTS

50. Which one of the following actions by a financial manager creates an agency problem?

- A. refusing to borrow money when doing so will create losses for the firm
- B. refusing to lower selling prices if doing so will reduce the net profits
- C.** agreeing to expand the company at the expense of stockholders' value
- D. agreeing to pay bonuses based on the market value of the company stock
- E. increasing current costs in order to increase the market value of the stockholders' equity

AACSB TOPIC: ETHICS
Ross - Chapter 001 #50
SECTION: 1.4
TOPIC: AGENCY PROBLEM
TYPE: CONCEPTS

51. Which of the following help convince managers to work in the best interest of the stockholders?

I. compensation based on the value of the stock

II. stock option plans

III. threat of a company takeover

IV. threat of a proxy fight

A. I and II only

B. III and IV only

C. I, II, and III only

D. I, III, and IV only

E. I, II, III, and IV

AACSB TOPIC: ETHICS

Ross - Chapter 001 #51

SECTION: 1.4

TOPIC: AGENCY PROBLEM

TYPE: CONCEPTS

52. Which form of business structure faces the greatest agency problems?

A. sole proprietorship

B. general partnership

C. limited partnership

D. corporation

E. limited liability company

AACSB TOPIC: ETHICS

Ross - Chapter 001 #52

SECTION: 1.4

TOPIC: AGENCY PROBLEM

TYPE: CONCEPTS

53. Which of the following are agency costs?

I. forgoing an investment opportunity which would add to the market value of the owner's equity

II. paying a dividend to each of the existing shareholders

III. purchasing new equipment which increases the value of each share of stock

IV. hiring outside auditors to verify the accuracy of the company financial statements

A. II and III only

B. I and III only

C. I and IV only

D. II and IV only

E. I, II, and IV only

AACSB TOPIC: ETHICS

Ross - Chapter 001 #53

SECTION: 1.4

TOPIC: AGENCY COST

TYPE: CONCEPTS

54. Which one of the following parties is considered a stakeholder of a firm?

- A.** employee
- B. short-term creditor
- C. long-term creditor
- D. preferred stockholder
- E. common stockholder

AACSB TOPIC: ETHICS
Ross - Chapter 001 #54
SECTION: 1.4
TOPIC: STAKEHOLDERS
TYPE: CONCEPTS

55. Which of the following represent cash outflows from a firm?

- I. issuance of securities
 - II. payment of dividends
 - III. new loan proceeds
 - IV. payment of government taxes
- A. I and III only
 - B.** II and IV only
 - C. I and IV only
 - D. I, II, and IV only
 - E. II, III, and IV only

Ross - Chapter 001 #55
SECTION: 1.5
TOPIC: CASH FLOWS
TYPE: CONCEPTS

56. Which of the following represent means by which cash flows from a corporation back into the financial markets?

- I. repayment of long-term debt
 - II. payment of government taxes
 - III. payment of loan interest
 - IV. sale of corporate stock
- A. I and II only
 - B.** I and III only
 - C. II and IV only
 - D. I, III, and IV only
 - E. I, II, and III only

Ross - Chapter 001 #56
SECTION: 1.5
TOPIC: CASH FLOWS
TYPE: CONCEPTS

57. Which one of the following is a primary market transaction?
- A. a dealer selling shares of stock to an individual investor
 - B.** a dealer buying newly issued shares of stock from a corporation
 - C. an individual investor selling shares of stock to another individual
 - D. a bank selling shares of a medical firm to an individual
 - E. a sole proprietor buying shares of stock from an individual investor

Ross - Chapter 001 #57
SECTION: 1.5
TOPIC: PRIMARY MARKET
TYPE: CONCEPTS

58. The transfer of ownership of outstanding shares of a NYSE listed stock:
- A. takes place in the primary market.
 - B. occurs in a dealer market.
 - C.** is facilitated in the secondary markets.
 - D. creates an immediate tax liability for both the seller and the buyer.
 - E. is referred to as a private placement.

Ross - Chapter 001 #58
SECTION: 1.5
TOPIC: SECONDARY MARKETS
TYPE: CONCEPTS

59. Which of the following statements concerning auction markets is (are) correct?
- I. NASDAQ is an auction market.
 - II. The NYSE is an auction market.
 - III. All trades involve a dealer in an auction market.
 - IV. An auction market is called an over-the-counter market.
- A. I only
 - B.** II only
 - C. I and III only
 - D. II and III only
 - E. II and IV only

Ross - Chapter 001 #59
SECTION: 1.5
TOPIC: AUCTION MARKET
TYPE: CONCEPTS

60. Which one of the following statements concerning stock exchanges is correct?

- A. The NYSE has more listed stocks than NASDAQ.
- B. The NYSE is a dealer market.
- C. The exchange with the strictest listing requirements is NASDAQ.
- D.** Some large companies are listed on NASDAQ.
- E. Most debt securities are traded on the NYSE.

Ross - Chapter 001 #60

SECTION: 1.5

TOPIC: STOCK EXCHANGE

TYPE: CONCEPTS

61. Dealer markets:

- A. are reserved strictly for trading debt securities.
- B. only exist outside of the United States.
- C.** are called over-the-counter markets.
- D. include the American and the Pacific Stock Exchanges.
- E. list only the securities of the largest firms.

Ross - Chapter 001 #61

SECTION: 1.5

TOPIC: DEALER MARKETS

TYPE: CONCEPTS

62. Which one of the following statements is correct concerning the NYSE?

- A.** A firm is expected to have a market value for its publicly held shares of at least \$100 million to be listed on the NYSE.
- B. The NYSE is the largest dealer market for listed securities in the United States.
- C. The NYSE accounts for only 50 percent of the shares traded in the auction markets.
- D. Any corporation desiring to be listed on the NYSE can do so.
- E. The NYSE is an over-the-counter exchange functioning as both a primary and a secondary market.

Ross - Chapter 001 #62

SECTION: 1.5

TOPIC: NYSE

TYPE: CONCEPTS

63. Which of the following statements concerning NASDAQ are correct?

I. Most smaller firms are listed on NASDAQ rather than on the NYSE.

II. NASDAQ is an electronic market.

III. NASDAQ is an auction market.

IV. NASDAQ is an OTC market.

A. I and II only

B. I and III only

C. II and IV only

D. I, II, and IV only

E. I, II, III, and IV

Ross - Chapter 001 #63

SECTION: 1.5

TOPIC: NASDAQ

TYPE: CONCEPTS

Essay Questions

64. List and briefly describe the three general topic areas addressed by a financial manager.

The three basic areas are:

1. capital budgeting: the identification of investment opportunities that have a value to the firm in excess of their cost.

2. capital structure: the specific mix of long-term debt and equity a firm uses to finance its operations.

3. working capital management: the daily control of a firm's short-term assets and short-term liabilities to ensure a firm has sufficient resources to efficiently continue its operations.

AACSB TOPIC: REFLECTIVE THINKING

Ross - Chapter 001 #64

SECTION: 1.1

TOPIC: FINANCIAL MANAGEMENT

65. What advantages does the corporate form of organization have over sole proprietorships and partnerships?

The advantages of the corporate form of organization over sole proprietorships and partnerships are the ease of transferring ownership, the owners' limited liability for business debts, the ability to raise more capital, and the potential for an unlimited life for the organization.

AACSB TOPIC: REFLECTIVE THINKING

Ross - Chapter 001 #65

SECTION: 1.2

TOPIC: BUSINESS ORGANIZATIONS

66. If the corporate form of business organization has so many advantages over the sole proprietorship, why is it so common for small businesses to initially be formed as sole proprietorships?

A significant advantage of the sole proprietorship is that it is inexpensive and easy to form. If the sole proprietor has limited capital to start with, it may not be desirable to spend part of that capital forming a corporation. Also, limited liability for business debts may not be a significant advantage if the proprietor has limited capital, most of which is tied up in the business anyway. Finally, for a typical small business, the heart and sole of the business is the person who founded it, so the life of the business may effectively be limited to the life of the founder during its early years.

AACSB TOPIC: REFLECTIVE THINKING
Ross - Chapter 001 #66
SECTION: 1.2
TOPIC: BUSINESS ORGANIZATIONS

67. What should be the primary goal of the financial manager of a corporation? Why?

The primary goal should be to maximize the current value of the outstanding stock. This goal focuses on enhancing the returns to stockholders who are the owners of the firm.

AACSB TOPIC: REFLECTIVE THINKING, ETHICS
Ross - Chapter 001 #67
SECTION: 1.3
TOPIC: FINANCIAL MANAGEMENT GOAL

68. Explain some of the key requirements that Sarbanes-Oxley placed on publicly traded corporations.

Some of the key requirements of Sarbanes-Oxley are: the prohibition of personal loans from the company to its officers, an annual report by management of the internal control and financial reporting within the firm along with an independent auditor's assessment of that report, a review and sign off by the corporate officers of the annual financial statements, and the responsibility for the accuracy of the financial reports placed directly on senior management of the firm.

AACSB TOPIC: REFLECTIVE THINKING, ETHICS
Ross - Chapter 001 #68
SECTION: 1.3
TOPIC: SARBANES-OXLEY ACT

69. In your opinion, did the Sarbanes-Oxley Act fail investors for those firms which opted to "go dark"?

Students may have a difference of opinion. On the one side, the Sarbanes-Oxley Act protected investors by causing firms which choose not to comply to be delisted on the exchanges thereby protecting investors. On the other side, the cost to comply with Sarbanes-Oxley may be the reason some firms were forced to delist, which in some cases may have caused worthy firms to lose their access to capital markets. In addition, by being forced by the compliance cost to delist, current shareholders may have suffered financial loss which otherwise would not have occurred.

AACSB TOPIC: REFLECTIVE THINKING, ETHICS

Ross - Chapter 001 #69

SECTION: 1.3

TOPIC: SARBANES-OXLEY ACT

70. Do you think agency problems arise in sole proprietorships or partnerships?

Agency conflicts typically arise when there is a separation of ownership and management of a business. In a sole proprietorship and a small partnership, such separation is not likely to exist to the degree it does in a corporation. However, there is still potential for agency conflicts. For example, as employees are hired to represent the firm, there is once again a separation of ownership and management. In limited partnerships, the opportunity exists for an agency problem to arise between the general and the limited partners.

AACSB TOPIC: REFLECTIVE THINKING, ETHICS

Ross - Chapter 001 #70

SECTION: 1.4

TOPIC: AGENCY THEORY

71. What concerns might a loan officer have when loaning funds to a sole proprietor that he or she might not have when loaning funds to a corporation?

The existence and viability of a sole proprietor is dependent upon one individual. Should that individual die, the entity would cease to exist. Likewise, should the owner lose interest in the business or become ill, the business could also cease to exist. With a corporation, the company ownership could be sold in any one of those situations such that the business entity would continue to exist.

AACSB TOPIC: REFLECTIVE THINKING

Ross - Chapter 001 #71

SECTION: 1.2

TOPIC: BUSINESS ORGANIZATIONS

72. Assume for a moment that the laws were changed such that stockholders in a corporation became personally liable for all corporate debts. What impact would such a change have on the functioning of the primary and secondary markets for common stock?

With unlimited liability, individual investors would be very cautious about owning shares of stock and would most likely immediately try to sell many of the shares which they currently owned. In particular, investors would sell all their shares in companies which they suspected might be financially incapable of meeting its financial obligations. Both the primary and secondary markets for common stock would be severely impacted if this law existed. Furthermore, such a law would make it difficult for corporations to raise the financial capital they need.

AACSB TOPIC: REFLECTIVE THINKING
Ross - Chapter 001 #72
SECTION: 1.2
TOPIC: LIMITED LIABILITY

73. Suppose you own 100 shares of Microsoft stock which you intend to sell today. Since you will sell it in the secondary market, Microsoft will receive no direct cash flows as a consequence of your sale. Why, then, should Microsoft's management personally care about the price you get for your shares?

The current market price of Microsoft stock reflects, among other things, market opinion about the quality of Microsoft's management. If the value of the stock is low, this indirectly reflects on the reputation of the managers, as well as potentially impacting each manager's value in the employment market. Alternatively, if the sale price is high, this indicates that the market believes current management is increasing firm value, and therefore the individual worth of each manager is increased. Should those managers own shares of Microsoft, which many do, then they are also affected personally by the market value of the stock.

AACSB TOPIC: REFLECTIVE THINKING, ETHICS
Ross - Chapter 001 #73
SECTION: 1.3
TOPIC: FINANCIAL MANAGEMENT GOALS

74. What are some of the differences between the NYSE and NASDAQ?

The NYSE is an auction market with a physical location in New York City. NASDAQ is a dealer's market which is solely electronic and therefore has no physical trading floor. The listing requirements of the NYSE are more stringent than those of NASDAQ and thus the NYSE tends to list larger firms with smaller firms being listed on NASDAQ. Note however, that larger firms can, and do, opt to remain on NASDAQ even though they qualify for NYSE listing.

AACSB TOPIC: REFLECTIVE THINKING
Ross - Chapter 001 #74
SECTION: 1.5
TOPIC: EXCHANGE LISTINGS

75. Explain the key difference between the primary market and the secondary market.

In the primary market, the issuer of a security is the seller. In the secondary market, the seller is a current shareholder.

AACSB TOPIC: REFLECTIVE THINKING

Ross - Chapter 001 #75

SECTION: 1.5

TOPIC: PRIMARY VERSUS SECONDARY MARKET

ch1 Summary

<i>Category</i>	<i># of Questions</i>
AACSB TOPIC: ETHICS	14
AACSB TOPIC: REFLECTIVE THINKING	7
AACSB TOPIC: REFLECTIVE THINKING, ETHICS	5
Ross - Chapter 001	75
SECTION: 1.1	15
SECTION: 1.2	26
SECTION: 1.3	10
SECTION: 1.4	9
SECTION: 1.5	15
TOPIC: AGENCY COST	1
TOPIC: AGENCY COSTS	1
TOPIC: AGENCY PROBLEM	4
TOPIC: AGENCY THEORY	1
TOPIC: ARTICLES OF INCORPORATION	2
TOPIC: AUCTION MARKET	2
TOPIC: BUSINESS ORGANIZATIONS	3
TOPIC: BUSINESS TYPES	1
TOPIC: BYLAWS	2
TOPIC: CAPITAL BUDGETING	3
TOPIC: CAPITAL STRUCTURE	3
TOPIC: CASH FLOWS	2
TOPIC: CONTROLLER	1
TOPIC: CORPORATION	5
TOPIC: DEALER MARKET	1
TOPIC: DEALER MARKETS	1
TOPIC: EXCHANGE LISTINGS	1
TOPIC: FINANCIAL MANAGEMENT	2
TOPIC: FINANCIAL MANAGEMENT GOAL	2
TOPIC: FINANCIAL MANAGEMENT GOALS	1
TOPIC: GENERAL PARTNERSHIP	1
TOPIC: GOAL OF FINANCIAL MANAGEMENT	2
TOPIC: LIMITED LIABILITY	1
TOPIC: LIMITED LIABILITY COMPANY	2
TOPIC: LIMITED PARTNER	1
TOPIC: NASDAQ	1
TOPIC: NYSE	1
TOPIC: ORGANIZATIONAL STRUCTURE	2
TOPIC: PARTNERSHIP	4
TOPIC: PARTNERSHIP AGREEMENT	1
TOPIC: PRIMARY MARKET	2
TOPIC: PRIMARY VERSUS SECONDARY MARKET	1
TOPIC: SARBANES-OXLEY	3
TOPIC: SARBANES-OXLEY ACT	2

TOPIC: SECONDARY MARKET	1
TOPIC: SECONDARY MARKETS	1
TOPIC: SOLE PROPRIETORSHIP	3
TOPIC: STAKEHOLDERS	2
TOPIC: STOCK EXCHANGE	1
TOPIC: TREASURER	1
TOPIC: WORKING CAPITAL MANAGEMENT	3
TYPE: CONCEPTS	43
TYPE: DEFINITIONS	20