



## Exam 2015, Questions, 2

Principles Of Business (University of California, Berkeley)



Module 1 Exam **Solution** – Cover Sheet

**Instructions**

- This is an exam. Do not talk.
- Your books, notes, and electronic devices must be put completely away, out of sight.
- **Do not open the exam** until you are told to begin.
- Once you leave the exam room, you may not return. No bathroom or other breaks during the exam
- Turn in your Scantron in the folder for your Discussion Section number.
- Keep the questions when you leave.
- If you do not have a Scantron form/pencil, take your seat, raise your hand and wait with your \$10
- Any contravention of these instructions will lead to your ejection from the exam with zero points
- While you are waiting to begin, enter the following information on your Scantron:

LINE:	INFO TO ENTER:	EXPLANATION:
Name:	LAST, First, Middle	Make sure your family name comes first
Subject:	1234-5678	Your Student ID Number
Test No.:	<b>See question 38</b>	This is your test version (ABCD) and unique ID number (0 to 9999)
Date:	1	This is the module number for this exam
Hour (Period):	101, 102, 103, etc.	This is your Discussion Section number – see below

Section	Day / Time	GSI Name
101	Tu 8-9A	Jeffrey Routh
102	Tu 9-10A	Jeffrey Routh
103	Tu 10-11A	Jonathan Heyne
104	Tu 11-12P	Jonathan Heyne
105	Tu 2-3P	Kelly Ling
106	Tu 5-6P	Kelly Ling
107	W 8-9A	Rajat Gulati
108	W 10-11A	Rajat Gulati
109	W 11-12P	Yekaterina Barilov
110	W 12-1P	Yekaterina Barilov
111	W 1-2P	Akshay Yadav
112	W 2-3P	Federico Merino
113	W 5-6P	Akshay Yadav
114	Th 8-9A	Federico Merino
115	Th 9-10A	Claire Bianchi
116	Th 10-11A	Claire Bianchi
117	Th 1-2P	Peter Trujillo
118	Th 5-6P	Peter Trujillo

**UGBA 10 – Principles of Business**  
**MODULE 1 EXAM – Spring 2015 2/20/2015**  
**FINANCE & ACCOUNTING**  
**Instructor: Professor Briginshaw**

1) Jose is a recent college graduate who has been hired for an entry-level professional position in the accounting department of a large corporation. Which of the following terms BEST describes Jose's capacity as an accountant?

- A) public accountant
- B) private accountant
- C) forensic accountant
- D) advisory accountant
- E) management accountant

Answer: B

Reference: Page 222 of custom text. Most private accountants are also management accountants, but not all

2) The Federal Reserve fulfils all of the following functions except

- a) The Government's Bank
- b) The Bankers Bank
- c) Check Clearing
- d) Management of Government spending

Answer: D.

Reference: The Fed is in charge of monetary policy. Government spending, being part of fiscal policy, is within the remit of Congress. See page 271.

3) Who is the Secretary of the US Treasury?

- a) Janet Yellen
- b) Angela Merkel
- c) Silvio Berlusconi
- d) Jacob Lew

Answer: D

4) A company's balance sheet showed \$10,000 of total assets on Dec 31 2014. Its outstanding debts (total liabilities) are \$3,500. What is the balance sheet equity on December 31?

- A) \$500
- B) \$6,500
- C) \$13,500
- D) \$20,500
- E) \$27,500

Answer B

Explanation :  $A = L + SE \Rightarrow SE = A - L = 10 - 3.5 = 6.5$

Reference: Custom text page 225

5) Which of the following does NOT represent a degree of competition in a private enterprise system?

- A) oligopoly
- B) socialism
- C) monopoly
- D) perfect competition
- E) monopolistic competition

Answer: B

Explanation: B) Socialism is not one of the four degrees of competition in a private enterprise system. Competition is the economic condition in which there are certain demands that can be met by more than one business, so businesses in the same industry compete for the same resources or customers.

6) Which term refers to the pattern of short-term ups and downs in an economy?

- A) aggregate output
- B) business cycle
- C) standard of living
- D) balance of payments
- E) demand and supply schedule

Answer: B

Explanation: B) The business cycle is the short-term pattern of economic expansions and contractions.

7) A city of 150,000 people has a large commercial sector bringing in businesses from the surrounding region. In 2007, there was 2.75 million square feet of commercial space available. Five years later, after a building boom, there was 5.5 million square feet of commercial space available.

Which effect will MOST likely occur?

- A) The equilibrium price of commercial real estate will not be affected.
- B) The increase in the supply of commercial real estate will lead to a corresponding increase in its price.
- C) The price of commercial real estate will decrease, absent a dramatic increase in demand.
- D) The increase in the supply of commercial real estate will lead to an increase in resource prices.
- E) The increase in supply will cause a corresponding increase in demand.

Answer: C

Explanation: C) Since the supply of commercial real estate has dramatically increased, unless there was a dramatic increase in demand, we would expect the price of commercial real estate to decrease.

8) What is the term for an increase in prices across the economy?

- A) Economic growth
- B) GDP per capita.
- C) Inflation
- D) Deflation

Answer: C

9) Suppose General Motors owns an automobile plant in Brazil. How much of the total value of goods and services produced by the plant will be included in US GDP?

- a) All of the value of goods and services produced
- b) The total profits earned by the plant
- c) Only that portion of profits that are remitted in cash to General Motors
- d) None of the value

Answer: D.

Explanation: Inclusion in GDP depends on geographic position of the factors - only plants within the US border would be included. See page 21.

10) Which of the following describes a liability?

- A) the potential profit from selling a firm's assets and settling all of its debts
- B) a debt owed by a firm to an outside organization or individual
- C) any economic resource expected to benefit a firm or an individual who owns it
- D) any economic deficit expected to cost a firm or an individual who owns it
- E) the amount of money originally invested in a business by its owners

Answer: B

Explanation: B) All debts owed to others are liabilities.

11) Which of the following describes assets such as patents and trademarks?

- A) liquid assets
- B) fixed assets
- C) intangible assets
- D) current assets
- E) limited assets

Answer: C

Explanation: C) Intangible assets are nonphysical assets. See custom text p.227.

12) ABC Company has a net income of \$5 million. ABC's number of outstanding shares of stock is 4,000,000 shares. What is the company's earnings per share?

- A) \$1.29
- B) \$.77
- C) \$1.25
- D) \$.80
- E) \$18.75

Answer: C

Explanation: C) Earnings per share = Net Income/Number of Common Shares Outstanding; therefore, in this scenario,  $\$5\text{m}/4\text{m} = \$1.25$ .

13) Bennequin Accounting has been hired by XYZ Manufacturing to help plan its merger with ABC Distribution. Which of the following terms BEST describes the capacity for which Bennequin has been hired?

- A) regulatory accounting
- B) corporate bookkeeping
- C) company auditing
- D) fraud investigation

E) management advisory

Answer: E

Explanation: E) In this capacity, private accountants help management make decisions. See page 221.

### Contribution Margin

Use the following information about Freddy's Pizza to answer the next two questions.

Freddy's pizza pays \$1000 fixed rent per month and each pizza costs \$2 in ingredients. The selling price of pizza is \$4 per pizza.

14) What is the break even number of pizzas for Freddy's pizza?

- a) 400 pizzas
- b) 267 pizzas
- c) 667 pizzas
- d) 500 pizzas

Answer: D

Profit = Unit CM x Q - F; Set Profit = 0 =>  $Q_{BE} = F / \text{Unit CM} = 1000 / 2 = 500$

15) If Freddy's sells 600 pizzas, what is the total contribution margin and what is the profit (ignore taxes)?

	Contribution margin	Profit
a)	\$1200	\$400
b)	\$2400	\$200
c)	\$1200	\$200
d)	\$200	-\$800 (Loss)

Answer: C

Profit = Unit CM x Q - F = 2 x 600 - 1000 = \$200

### Financial Statement and ratio analysis:

Use the following information on Andrews Incorporated to answer the next two questions

Average stockholders' equity	\$10,000	Net income	\$ 3,000
Average total assets	\$25,000	Net sales	\$30,000
Current assets	\$10,000	Total liabilities	\$15,000
Current liabilities	\$5,000		

16) What is the Return on Equity for Andrews?

- a) 2
- b) 2.5
- c) 10%
- d) 30%

Answer: D

Explanation: RoE = net income/equity = 3000/10000 = 30%, see HBS reading page 2

17) What is the Financial Leverage Ratio for Andrews?

- a) 2                      b) 2.5                      c) 10%                      d) 30%

ANSWER: B

Explanation: Financial Leverage Ratio = Average Total Assets/Average Stockholders' Equity = 25,000/10,000 = 2.5

Reference: HBS reading page 4

18) Little Mike's Cheese is a cheese shop. In January, Mike's Cheese finds some excellent cheese called Cambazola from Italy. They buy \$1000 worth on credit, taking delivery in January, to pay Cambazola in 30 days (i.e. they will pay the supplier \$1000 in **February**). In February they start to sell the cheese, and deliver 70% of the cheese to their favorite customers for a 100% markup in February. The customers buy on credit and will pay in March. What is the Revenue, Income and Cash flow for Little Mike's Cheese in **February**?

	Revenue	Income	Cash flow
a)	1400	700	-1000
b)	400	-300	0
c)	1400	-300	700
d)	1400	700	700

Answer: A

Explanation: Cost = 0.7 x 1000 = 700

revenue = 700+(700\*1) = 1400

income = 1400-700 = 700

cash flow = 0 - 1000 = -1000 (no customers pay, but the store must pay for the Cheese)

19) Which of the following statements BEST describes why U.S. Treasury securities are considered to be risk-free investments?

- A) They are backed by the U.S. government.  
B) They have a guaranteed rate of return.  
C) They are easily sold.  
D) They are readily available for purchase.

Answer: A

Explanation: A) The other reasons here are all true, but only because of the backing of the U.S. government.

20) When thinking about exchange rates, an expensive dollar relative to the Japanese Yen is **best** for

- a) European tourists visiting the USA  
b) US exporters selling into Japan  
c) Japanese companies seeking to sell imports into the USA  
d) Japanese tourists visiting Europe

Answer: C – a given number of dollars buys more in yen

Reference: custom text page 278

21) A cow rancher uses money to buy a fence for his ranch. Which function of money does this illustrate?

- A) stabilization of value
- B) foundation of banking
- C) medium of exchange
- D) store of value
- E) measure of worth

Answer: C

Custom text page 261

22) Which of the following federal laws made transactions between banks significantly more efficient?

- A) the Check Clearing for the 21st Century Act
- B) the Bank Secrecy Act
- C) the USA Patriot Act
- D) the Federal Reserve Act
- E) the Economic Emergency Recovery Act

Answer: A

Explanation: A) It made electronic clearing of checks legal. See pages 275-6.

23) Which of the following reasons is the primary motivator for a commercial bank to acquire new depositors?

- A) A new deposit account will make more funds available to pay the interest on other deposit accounts.
- B) A new deposit account will make more funds available to pay the bank's employees.
- C) A new deposit account will make more funds available to give out in loans.
- D) A new deposit account will make more funds available to give out in dividends to its investors.
- E) A new deposit account will make more funds available to facilitate brokerage transactions.

Explanation: C) A commercial bank makes its profits from investments and loans derived from its depositors' cash.

24) Which of the following statements BEST describes why an increase in the discount rate often results in a decrease in the money supply?

- A) An increase in the discount rate will lower the overall values of loans from the Federal Reserve Banks to individual banks.
- B) An increase in the discount rate will lower the overall values of loans from individual banks to other financial institutions.
- C) An increase in the discount rate will lower the overall number of banks issuing loans to individuals.
- D) An increase in the discount rate will lower the overall number of loans from the Federal Reserve Banks to individual banks.
- E) An increase in the discount rate will lower the overall number of loans from the Federal Reserve Banks to individuals.

Answer: A

Explanation: A) An increase in the discount rate increases the amount of money each local bank



will pay to the Federal Reserve bank to borrow money, so they will borrow less thus tightening money supply. This in turn drives lower lending from banks to other institutions (B) and individuals (C). Since money supply is measured in dollars it is the value of the loans which is more relevant than the number (D) of loans. E is incorrect as the Fed does not lend to individuals. See page 272.

25) Which of the following is the federal government agency that regulates U.S. securities markets?

- A) New York Stock Exchange
- B) Federal Reserve
- C) Commerce Department Answer:
- D) Securities and Exchange Commission
- E) Treasury Department

Answer: D

Ref: Textbook page 321-322.

26) Albert has some stocks and is carefully watching the stock market. Which of the following should he pay attention to in order to find out the performance of the more **technology related** companies?

- A) Standard & Poor's 500
- B) the NYSE index
- C) Dow Jones Industrial Average (Dow 30)
- D) Moody's Stock List
- E) the NASDAQ

Answer: E

Explanation: E) The Nasdaq has more technology related stocks as noted in lecture 6.

27) Which of the following represents the correct risk ranking of 3 investment alternatives, starting from the lowest risk and ending with the highest risk?

- a) common stocks, short term treasury bills, high grade corporate bonds
- b) short term treasury bills, common stocks, high grade corporate bonds
- c) short term treasury bills, high grade corporate bonds, common stocks
- d) high grade corporate bonds, common stocks, short term treasury bills

Answer: C.

Reference: Lecture 7 and page 310.

28) If you purchased a share of GE stock for \$34.82, then sold it one year later for \$36.50, what would the price appreciation be?

- A) \$1.68      B) \$2.68      C) \$33.82      D) \$36.50      E) \$67.24

Answer: A

Explanation: A) Price appreciation is an increase in the dollar value of an investment, thus you would subtract \$34.82 from \$36.50.  $36.50 - 34.82 = \$1.68$

29) Don Dillon is a 24-year-old graphic designer. He eventually wants to get married, raise a family, and buy a house. He knows that he has to start putting money away so that his goals can

someday become a reality. He has heard that investing is risky because you can lose money as well as make money. So Don decides to play it safe and deposit money in a bank on a regular basis. Why might this **not** be his best strategy?

- A) Stock investments will always result in high returns.
- B) It always pays to take chances with your money.
- C) You can actually lose money with bank savings due to the effects of inflation and taxes.
- D) People usually benefit from risky investments.
- E) Most savings accounts are insured by the FDIC.

Answer: C

Explanation: C) The interest on your savings is taxed, which is partly how you can lose money. Inflation can make the dollars in your savings account worth less over time. A, B, D may be true, or not. E is an advantage of Don's strategy.

30) Which of the following (if any) guarantees that employees belonging to a **defined contribution** pension scheme will have sufficient money to fund their retirement?

- A) Internal Revenue Service
- B) Pension Benefit Guaranty Corporation
- C) The Employer
- D) Federal Deposit Insurance Corporation
- E) There is no such guarantee

Answer: E

Reference: Lecture 7 – funds in a defined contribution scheme are dependent on employee contributions and investment choices.

31) A person invests \$100 for 2 years at the prevailing interest rate of 10%. The future value of the investment is closest to....

- a) \$83
- b) \$100
- c) \$121
- d) \$141

Answer: C

Explanation:  $100 \times 1.1 = 110$ ;  $110 \times 1.1 = \$121$

32) What is the meaning of “rebalancing” as it applies to investments for retirement?

- a) Buying a variety of company stocks, rather than just one
- b) Ensuring to “cash out” whenever leaving an employer
- c) Selecting a Roth IRA, rather than a traditional IRA
- d) Changing the balance between asset classes or investments, for example by selling a proportion of common stocks in the retirement plan and “rebalancing” by buying bonds

Answer: D, see lectures 7 and 8

33) Which of the following statements is true about treasury bonds as investments?

- A) Bonds are among the riskiest of all investments.
- B) Bonds are suitable for investors who seek security.
- C) Bonds will never become worth less than their purchase price.
- D) Treasury bonds are sensitive to individual company performance.

Answer: B

Explanation: B) Bonds are quite secure but can fall in value (negating C) if interest rates rise

- 34) “The Everything Boom” reading suggests the main reason for current high asset prices is:
- a) global central banks’ attempts to generate growth through low int rates and buying assets
  - b) a worldwide improvement in human motivation
  - c) technological progress
  - d) increased use of clean energy

Answer: A

Reference: Earnings boom page 2, first full paragraph. The author’s view is that the cause of the high asset values is an excess of money supply (due to buying assets with created money) and low interest rates. **NOTE: READING DELETED**

- 35) According to the “Brokers Fight Rule...” reading, the move to require brokers to be “fiduciaries” has been most opposed by...
- a) The Labor department
  - b) Individual investors
  - c) The Tea Party movement
  - d) The financial services industry

Answer: D, reading page 1

- 36) The following are all uses of cash in the Capsim finance screen **except**
- a) Paying Dividends
  - b) Retiring Debt
  - c) Retiring Stock
  - d) Issuing Stock

Answer: D

Explanation: Stock issues bring cash into the company

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37. I have carefully checked my Scantron. My Section number is correctly shown and I have checked that my name is written in the Registrar’s form, last name first.

- a. Yes
- b. No

38. This is version “A”: fill in the “A” bubble for this question and write the letter and unique exam identifier “A9876” in the “TEST NO.” box of your Scantron.

**IMPORTANT NOTE: IN THE EVENT YOU DO NOT WRITE YOUR UNIQUE IDENTIFIER (A9876) ON THE SCANTRON, IF YOUR IDENTIFIER DOES NOT MATCH THAT SHOWN ABOVE OR IF IT HAS BEEN USED BY ANOTHER STUDENT, YOU WILL AUTOMATICALLY SCORE ZERO ON THIS TEST.**

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