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| *Indicate the answer choice that best completes the statement or answers the question.* |

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| 1. Financial managers emphasize the goal of maximizing the market price of stock because:   |  |  |  | | --- | --- | --- | |  | a. | they have a fiduciary duty. | |  | b. | they have to safeguard owner's investments. | |  | c. | their money is at risk. | |  | d. | they are socially responsible. | |

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| 2. Garry, a financial manager at AtoZ technologies, wants to know when his firm will need to arrange for short-term financing and when the firm is likely to have surplus cash available to pay off loans or to invest in short-term liquid assets. These concerns suggest that Garry would want to develop a \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | cash budget | |  | b. | pro forma income statement | |  | c. | sales forecast | |  | d. | projected balance sheet | |

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| 3. Which of the following statements is true of current ratio?   |  |  |  | | --- | --- | --- | |  | a. | The larger a firm's current ratio, the harder it is for the firm to pay its short-term debts. | |  | b. | The current ratio is a type of leverage ratio. | |  | c. | A current ratio that is below 1.0 signifies a company's inability to pay its short-term liabilities with its current assets. | |  | d. | The current ratio is computed by dividing a firm's current liabilities by its current assets. | |

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| 4. In the context of liquidity ratios, a firm's \_\_\_\_\_ are the debts that must be repaid in the following year.   |  |  |  | | --- | --- | --- | |  | a. | fixed assets | |  | b. | current liabilities | |  | c. | long-term liabilities | |  | d. | capital assets | |

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| 5. \_\_\_\_\_ forecasts the types and amounts of assets a firm will need to implement its future plans and help financial managers determine the amount of additional financing the firm must arrange in order to acquire those assets.   |  |  |  | | --- | --- | --- | |  | a. | A query report | |  | b. | The cash budget | |  | c. | A statement of cash flows | |  | d. | The budgeted balance sheet | |

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| 6. Maurio Pena, a petroleum company, needs to pay $2 million to Zaiten Inc. Maurio Pena sells its old assets to another company and obtains enough money to pay its debt. In this scenario, Maurio Pena's ability to sell its old assets to another company in order to pay its debt to Zaiten is measured by analyzing \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | leverage ratios | |  | b. | asset management ratios | |  | c. | liquidity ratios | |  | d. | profitability ratios | |

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| 7. Which of the following statements is true of trade credit?   |  |  |  | | --- | --- | --- | |  | a. | It is also called a revolving credit agreement. | |  | b. | It is a requirement lenders impose on borrowers as a condition of loans. | |  | c. | It is granted by suppliers after evaluating the creditworthiness of a firm. | |  | d. | It is the part of a firm's net income that the firm reinvests. | |

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| 8. Which of the following is a similarity between angel investors and venture capitalists?   |  |  |  | | --- | --- | --- | |  | a. | Both require firms to pledge collateral, such as inventories or accounts receivable. | |  | b. | Both invest in risky opportunities that offer the possibility of high rates of return. | |  | c. | Both typically provide funds without requiring a share of ownership. | |  | d. | Both are key sources of long-term funds, which are backed by commercial paper. | |

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| 9. Merith Qin, a textile company, relies on self-funding in order to sustain the promotion of its new product in the market. The company sold its newly issued stock and was able to amass a sizable amount of money to invest. Which of the following sources of long-term funds is being used by Merith Qin in the given scenario?   |  |  |  | | --- | --- | --- | |  | a. | Direct investments from owners | |  | b. | Long-term debt | |  | c. | Corporate bonds | |  | d. | Term loans | |

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| 10. Vironi Mave, a designer clothing company, wants to hire fashion designers to start a new clothing line for men. To obtain funds for the project, Vironi Mave issues several formal IOUs to sell them to its investors, with a maturation period of ten years. Which of the following sources of long-term funds is being used by Vironi Mave in the given scenario?   |  |  |  | | --- | --- | --- | |  | a. | Commercial paper | |  | b. | Term loans | |  | c. | Direct investments from owners | |  | d. | Corporate bonds | |

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| 11. Delventon Bank offers loans to multinational corporations which can be returned over an extended period along with interest. The bank issues such loans in the form of bonds. Which of the following financing options is being offered by Delventon Bank in the given scenario?   |  |  |  | | --- | --- | --- | |  | a. | Factoring | |  | b. | Trade credit | |  | c. | Long-term debt | |  | d. | Commercial paper | |

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| 12. The main disadvantage of financial leverage is that:   |  |  |  | | --- | --- | --- | |  | a. | it increases the taxes of firms that use it. | |  | b. | it requires owners to invest more of their own money. | |  | c. | the cost of debt financing is now high. | |  | d. | it protects firms from predatory lending practices by financial institutions. | |

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| 13. Pro Corp. and Darths Inc. are two companies that are identical in every aspect except for the fact that Pro only uses equity financing, while Darths relies heavily on debt financing. Over the past year, the firms had identical earnings before interest and taxes. If net income for both firms is high, \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | Pro would pay lower taxes than Darths | |  | b. | Darths would report a higher return-on-equity than Pro | |  | c. | Darths would report a lower return-on-equity than Pro | |  | d. | Pro would be required to pay no taxes, unlike Darths | |

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| 14. Which of the following statements best describes a money market mutual fund?   |  |  |  | | --- | --- | --- | |  | a. | It pools funds from many investors and uses these funds to purchase very safe, highly liquid securities. | |  | b. | It is a short-term marketable IOU issued by the U.S. federal government. | |  | c. | It is the part of a firm's net income it reinvests. | |  | d. | It is a financial agreement between a firm and a bank in which the bank pre-approves credit up to a specified limit. | |

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| 15. The time value of money reflects the fact that:   |  |  |  | | --- | --- | --- | |  | a. | spontaneous financing is a particularly important source of financing for small businesses. | |  | b. | it is best to have money today, so it can be put to work sooner to make even more money. | |  | c. | a covenant requires the borrower to agree not to borrow any additional funds until the specified length of the current loan. | |  | d. | long-term investments are more profitable than short-term investments. | |

**Answer Key**

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| 2. a |

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| 3. c |

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| 4. b |

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| 5. d |

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| 6. c |

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| 7. c |

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| 8. b |

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| 9. a |

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| 10. d |

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| 11. c |

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| 12. c |

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| 13. b |

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| 14. a |

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| 15. b |