1

Student: ____

1. Corporate finance can be described as decisions made by:
   A. equity market investors.
   B. potential debt holders.
   C. company directors and management.
   D. financial analysts.

2. In corporate finance, the financing and investment decisions are related to questions concerning:
   A. how to generate profits and expand operations.
   B. how to reduce costs and survive.
   C. how to acquire and employ or invest funds.
   D. all of the given options.

3. Corporate decisions include:
   A. investment decisions.
   B. financing decisions.
   C. dividend decisions.
   D. all of the given options.

4. When formulating financial policy, managers also have to consider the appropriate balance between:
   A. receivables and payables.
   B. interim and final dividends.
   C. short-term and medium-term finance.
   D. short-term and long-term finance.

5. The ultimate objective of investment and financing decisions is to maximise:
   A. the number of projects the company is invested in.
   B. the amount added to the value of the owner's wealth.
   C. the salaries of all employees of the firm.
   D. the repayments that are made of debt.

6. Many small service businesses, retail stores and professional practices are operated as:
   A. joint ventures.
   B. partnerships.
   C. sole proprietorships.
   D. limited liability firms.

7. Which of the following is not one of the three major types of business structures in Australia:
   A. dealership.
   B. sole proprietorship.
   C. limited liability company.
   D. partnership.

8. The concept of arbitrage involves:
   A. buying a share and selling it later when it increases in value
   B. simultaneous transactions in different markets that result in an immediate risk-free profit.
   C. agreeing on a price to buy or sell a security for in the future.
   D. buying a higher quality good for a cheaper price than is offered for a similar lower quality item.

9. The principle that a dollar is worth more the sooner it is to be received is the:
   A. value principle.
   B. value of money principle.
   C. time value of money principle.
   D. Fisher effect.

10. The interest rate quoted in the financial markets for borrowing and lending transactions is the:
    A. real interest rate.
    B. prime lending rate.
    C. nominal interest rate.
    D. cash rate.

11. The concept of market efficiency means that we should expect securities and other assets to be:
    A. underpriced given their expected risks and returns.
    B. overpriced given their expected risks and returns.
    C. fairly priced given their expected risks and returns.
    D. none of the given options is correct as prices cannot be predicted.

12. An investment decision is distinct from a financing decision in that:
    A. financing decisions consider which is the best investment to undertake, while investment decisions consider the list of possible investments that can be made.
    B. investment decisions are about deciding on which new investments should be undertaken, and reviewing past investments, while financing decisions consider how to fund the capital needs of the investment program.
    C. investment decisions relate to reviewing past investment programs, while financing decisions relate to funding new investments.
    D. financing decisions relate to choices about the firm's financial asset base, while investment decisions relate to choices about physical assets.

13. Partnerships are a common form of business entity for small service businesses because:
    A. they provide legal protection for the proprietor from the creditors of the firm.
    B. they are ideal for where the business is owned by one person.
    C. there are no legal requirements that need to be met to form a partnership.
    D. they allow the company to buy, own and sell property.

14. Shareholders in a company have limited liability, which means that:
    A. shareholders can be called upon to contribute only the amount unpaid on shares held in the company.
    B. the maximum the shareholders can be called upon to contribute is the current market price of the shares.
    C. shareholders can never be called upon to make an additional contribution to the company's assets.
    D. shareholders have little or limited interest in the activities of management of the company, because the management and ownership of the firm are separated.

15. The principal role of a company's financial manager is:
    A. to undertake the company's accounting and financial reporting activities.
    B. to obtain the funds necessary for the capital budget and make sure they are used effectively.
    C. to provide advice to the Board of Directors on the company's profitability.
    D. none of the given options.

16. Which of the following best reflects the financial objective of a company?
    A. To minimise the operational risk facing the company.
    B. To maximise the accounting profit of the company.
    C. To provide the best possible dividend outcome for shareholders in any given year.
    D. To maximise the market value of shareholders' equity.

17. The valuation of a firm is best described as depending on:
    A. the market value of the assets employed by the firm.
    B. the value of land and property held by the firm.
    C. the value that the market places on the combined debt and equity of the firm.
    D. the capitalised value of the dividends paid by the firm.

18. Interest rates can be expressed in real or nominal terms. Which of the following is most correct?
    A. Market rates are always expressed in real terms, because it is important that inflation be included in financial assessment.
    B. Real interest rates can be calculated as the difference between nominal rates and the inflation rate.
    C. Because market rates are usually in nominal terms, cash flows will usually be in inflation-adjusted terms.
    D. Market rates are only meaningful in nominal terms, because an accurate adjustment for inflation is not possible.

19. In considering the operations of a mining company, diversifiable risk is best described as:
    A. the combination of risk factors that relate to the operations of the mining company.
    B. all of those factors that influence all companies in the economy, regardless of industry.
    C. all risk factors that tend to influence the mining industry specifically.
    D. variations in international commodity prices and the price of gold.

20. The concept of market efficiency embodies the idea that:
    A. investors want to be compensated with higher returns for all the unsystematic risk they bear, and expect prices to adjust in an instantaneous and unbiased way.
    B. all investors are fully informed about the potential returns for a given firm, and therefore the share price is a fair representation.
    C. share prices respond to new information in a way that is both unbiased and instantaneous.
    D. because holders of debt do not share in the high returns in good economic periods, they require a higher rate of return relative to the risk they bear.

21. The key feature of an agency relationship is that:
    A. the principal will always make decisions that are in the best interests of the agent.
    B. a company will allow another firm to take on its name, and act as an agent in doing business.
    C. the decisions by the agent will always improve the position of the owners of a firm.
    D. one party passes the responsibility for making decisions to another party.

22. The concept of investors being risk averse means that:
    A. investors will always prefer an investment that carries less risk.
    B. investors require higher returns to compensate for carrying more risk.
    C. the investment's risk is the predominant feature considered by the investor.
    D. investors will make all possible attempts to avoid systematic risk.

23. Agency costs are an integral part of agency relationships. They are a key concern in the shareholder–management relationship in that:
    A. agency costs result in a reduction in the value of the company, because management pursues its own interests.
    B. agency costs result in a reduction in the value of the company, because of the administration costs in establishing agencies.
    C. establishment of agency relationships requires extensive legal and contractual arrangements, which can be very costly.
    D. shareholders view a company that operates as an agent to other companies as being more risky, and therefore they are willing to pay less for shares in the company.

24. Which of the following does not represent an agency cost resulting from the separation of ownership from control of the firm?
    A. The expense of providing management with bonuses based on profitability.
    B. The cost of a company director taking a business trip to Hawaii with no potential benefit to the company.
    C. The cost of a staff Christmas party designed to enhance staff morale.
    D. The cost of monitoring the activities of management to keep track of its expenditures and decisions.

25. Which of the following does not represent a financing activity of a company?
    A. Organising the project funding for specific investments.
    B. Managing the cash flows and short-term investments of the company.
    C. Organising the funding of the general operations of the company.
    D. Undertaking the accounting and annual reporting activities of the company.

26. Maximising the value of the firm can also be described as:
    A. maximising the value of the company's ordinary shares.
    B. maximising the accounting profit of the firm.
    C. minimising the interest rate charged by creditors of the firm.
    D. maximising sales revenue or turnover of the firm.

27. The issuance of ordinary shares is normally:
    A. a financing decision made by managers.
    B. an investment decision made by managers.
    C. a dividend decision made by managers.
    D. both a financing decision made by managers and an investment decision made by managers.

28. Which of the following statements is a disadvantage of a sole proprietorship?
    A. The taxation treatment of partnerships can be a disadvantage.
    B. It is more expensive to establish than a company.
    C. It can be difficult to raise funds for expansion.
    D. There are more regulatory requirements than a company.

29. Which of the following statements is an advantage of a partnership?
    A. It can combine the wealth and talents of several individuals.
    B. The partners are personally liable for the debts of the partnership.
    C. The partnership has an indefinite life.
    D. Additional capital can be raised relatively by issuing additional shares on the stock market.

30. The value of derivative securities depends on the value of:
    A. the company value derived from analysts expectations.
    B. some underlying security.
    C. market interest rates.
    D. the structure of the business.

31. The possibility that managers may pursue their own objectives rather than shareholder interests is known as the _________ problem.

    ____

32. The shareholders of most companies have ________________, meaning that if the company is unable to pay its debts, the owners of fully paid shares are not obliged to contribute further to repay the debt.

    ____

33. A company is a separate legal entity formed under the ________________.

    ____

34. Compared with other forms of business structure, a ____________ is subject to the most onerous regulation.

    ____

35. An investor who is _______________ will choose a risky investment only if the expected return on the investment is high enough to compensate the investor for bearing the risk.

    ____

36. The purchasing power of money increases over time as a result of _____________.

    ____

37. Owners of a sole proprietorship are protected by limited liability.

True False

38. The company's financial objective is to maximise the market value of shareholders' wealth.

True False

39. A company has an indefinite life.

True False

40. In Australia, most large businesses are partnerships:

True False

41. The market value of a company is calculated as the sum of the net assets and owners equity on the company's balance sheet:

True False

42. It is better to receive a sum of money next year than to receive the same amount today:

True False

43. An efficient capital market is one in which securities and other assets are fairly priced:

True False

44. If the interest rate is 10% per annum, most people would rather receive $1 now than $1.06 in one year's time:

True False

1 Key

1. Corporate finance can be described as decisions made by:
   A. equity market investors.
   B. potential debt holders.
   C. company directors and management.
   D. financial analysts.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-02 Identify the major decisions made by financial managers and investors
Peirson - Chapter 01 #1
Section: 1.1 Finance as an area of study

2. In corporate finance, the financing and investment decisions are related to questions concerning:
   A. how to generate profits and expand operations.
   B. how to reduce costs and survive.
   C. how to acquire and employ or invest funds.
   D. all of the given options.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-04 Specify the objective of the company
Peirson - Chapter 01 #2
Section: 1.4 The companys financial objective

3. Corporate decisions include:
   A. investment decisions.
   B. financing decisions.
   C. dividend decisions.
   D. all of the given options.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-02 Identify the major decisions made by financial managers and investors
Peirson - Chapter 01 #3
Section: 1.1 Finance as an area of study

4. When formulating financial policy, managers also have to consider the appropriate balance between:

   A. receivables and payables.
   B. interim and final dividends.
   C. short-term and medium-term finance.
   D. short-term and long-term finance.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-02 Identify the major decisions made by financial managers and investors
Peirson - Chapter 01 #4
Section: 1.2 Financial decisions

5. The ultimate objective of investment and financing decisions is to maximise:
A. the number of projects the company is invested in.
B. the amount added to the value of the owner's wealth.
C. the salaries of all employees of the firm.
D. the repayments that are made of debt.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-04 Specify the objective of the company
Peirson - Chapter 01 #5
Section: 1.4 The companys financial objective

6. Many small service businesses, retail stores and professional practices are operated as:
A. joint ventures.
B. partnerships.
C. sole proprietorships.
D. limited liability firms.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #6
Section: 1.3 Business structures

7. Which of the following is not one of the three major types of business structures in Australia:
A. dealership.
B. sole proprietorship.
C. limited liability company.
D. partnership.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #7
Section: 1.3 Business structures

8. The concept of arbitrage involves:
A. buying a share and selling it later when it increases in value
B. simultaneous transactions in different markets that result in an immediate risk-free profit.
C. agreeing on a price to buy or sell a security for in the future.
D. buying a higher quality good for a cheaper price than is offered for a similar lower quality item.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #8
Section: 1.5 Fundamental concepts in finance

9. The principle that a dollar is worth more the sooner it is to be received is the:
A. value principle.
B. value of money principle.
C. time value of money principle.
D. Fisher effect.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #9
Section: 1.5 Fundamental concepts in finance

10. The interest rate quoted in the financial markets for borrowing and lending transactions is the:
A. real interest rate.
B. prime lending rate.
C. nominal interest rate.
D. cash rate.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #10
Section: 1.5 Fundamental concepts in finance

11. The concept of market efficiency means that we should expect securities and other assets to be:
A. underpriced given their expected risks and returns.
B. overpriced given their expected risks and returns.
C. fairly priced given their expected risks and returns.
D. none of the given options is correct as prices cannot be predicted.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #11
Section: 1.5 Fundamental concepts in finance

12. An investment decision is distinct from a financing decision in that:
A. financing decisions consider which is the best investment to undertake, while investment decisions consider the list of possible investments that can be made.
B. investment decisions are about deciding on which new investments should be undertaken, and reviewing past investments, while financing decisions consider how to fund the capital needs of the investment program.
C. investment decisions relate to reviewing past investment programs, while financing decisions relate to funding new investments.
D. financing decisions relate to choices about the firm's financial asset base, while investment decisions relate to choices about physical assets.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #12
Section: 1.5 Fundamental concepts in finance

13. Partnerships are a common form of business entity for small service businesses because:
A. they provide legal protection for the proprietor from the creditors of the firm.
B. they are ideal for where the business is owned by one person.
C. there are no legal requirements that need to be met to form a partnership.
D. they allow the company to buy, own and sell property.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #13
Section: 1.3 Business structures

14. Shareholders in a company have limited liability, which means that:

A. shareholders can be called upon to contribute only the amount unpaid on shares held in the company.

B. the maximum the shareholders can be called upon to contribute is the current market price of the shares.

C. shareholders can never be called upon to make an additional contribution to the company's assets.

D. shareholders have little or limited interest in the activities of management of the company, because the management and ownership of the firm are separated.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #14
Section: 1.3 Business structures

15. The principal role of a company's financial manager is:

A. to undertake the company's accounting and financial reporting activities.

B. to obtain the funds necessary for the capital budget and make sure they are used effectively.

C. to provide advice to the Board of Directors on the company's profitability.

D. none of the given options.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-02 Identify the major decisions made by financial managers and investors
Peirson - Chapter 01 #15
Section: 1.5 Fundamental concepts in finance

16. Which of the following best reflects the financial objective of a company?

A. To minimise the operational risk facing the company.

B. To maximise the accounting profit of the company.

C. To provide the best possible dividend outcome for shareholders in any given year.

D. To maximise the market value of shareholders' equity.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-04 Specify the objective of the company
Peirson - Chapter 01 #16
Section: 1.4 The companys financial objective

17. The valuation of a firm is best described as depending on:

A. the market value of the assets employed by the firm.

B. the value of land and property held by the firm.

C. the value that the market places on the combined debt and equity of the firm.

D. the capitalised value of the dividends paid by the firm.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #17
Section: 1.5 Fundamental concepts in finance

18. Interest rates can be expressed in real or nominal terms. Which of the following is most correct?

A. Market rates are always expressed in real terms, because it is important that inflation be included in financial assessment.

B. Real interest rates can be calculated as the difference between nominal rates and the inflation rate.

C. Because market rates are usually in nominal terms, cash flows will usually be in inflation-adjusted terms.

D. Market rates are only meaningful in nominal terms, because an accurate adjustment for inflation is not possible.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #18
Section: 1.5 Fundamental concepts in finance

19. In considering the operations of a mining company, diversifiable risk is best described as:

A. the combination of risk factors that relate to the operations of the mining company.

B. all of those factors that influence all companies in the economy, regardless of industry.

C. all risk factors that tend to influence the mining industry specifically.

D. variations in international commodity prices and the price of gold.

AACSB: Analytic
Blooms: Application
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #19
Section: 1.5 Fundamental concepts in finance

20. The concept of market efficiency embodies the idea that:

A. investors want to be compensated with higher returns for all the unsystematic risk they bear, and expect prices to adjust in an instantaneous and unbiased way.

B. all investors are fully informed about the potential returns for a given firm, and therefore the share price is a fair representation.

C. share prices respond to new information in a way that is both unbiased and instantaneous.

D. because holders of debt do not share in the high returns in good economic periods, they require a higher rate of return relative to the risk they bear.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #20
Section: 1.5 Fundamental concepts in finance

21. The key feature of an agency relationship is that:

A. the principal will always make decisions that are in the best interests of the agent.

B. a company will allow another firm to take on its name, and act as an agent in doing business.

C. the decisions by the agent will always improve the position of the owners of a firm.

D. one party passes the responsibility for making decisions to another party.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #21
Section: 1.5 Fundamental concepts in finance

22. The concept of investors being risk averse means that:

A. investors will always prefer an investment that carries less risk.
B. investors require higher returns to compensate for carrying more risk.
C. the investment's risk is the predominant feature considered by the investor.
D. investors will make all possible attempts to avoid systematic risk.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #22
Section: 1.5 Fundamental concepts in finance

23. Agency costs are an integral part of agency relationships. They are a key concern in the shareholder–management relationship in that:

A. agency costs result in a reduction in the value of the company, because management pursues its own interests.
B. agency costs result in a reduction in the value of the company, because of the administration costs in establishing agencies.
C. establishment of agency relationships requires extensive legal and contractual arrangements, which can be very costly.
D. shareholders view a company that operates as an agent to other companies as being more risky, and therefore they are willing to pay less for shares in the company.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #23
Section: 1.5 Fundamental concepts in finance

24. Which of the following does not represent an agency cost resulting from the separation of ownership from control of the firm?

A. The expense of providing management with bonuses based on profitability.
B. The cost of a company director taking a business trip to Hawaii with no potential benefit to the company.
C. The cost of a staff Christmas party designed to enhance staff morale.
D. The cost of monitoring the activities of management to keep track of its expenditures and decisions.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #24
Section: 1.5 Fundamental concepts in finance

25. Which of the following does not represent a financing activity of a company?

A. Organising the project funding for specific investments.
B. Managing the cash flows and short-term investments of the company.
C. Organising the funding of the general operations of the company.
D. Undertaking the accounting and annual reporting activities of the company.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-01 Describe the structure of finance as an area of study
Peirson - Chapter 01 #25
Section: 1.1 Finance as an area of study

26. Maximising the value of the firm can also be described as:
A. maximising the value of the company's ordinary shares.
B. maximising the accounting profit of the firm.
C. minimising the interest rate charged by creditors of the firm.
D. maximising sales revenue or turnover of the firm.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-04 Specify the objective of the company
Peirson - Chapter 01 #26
Section: 1.4 The companys financial objective

27. The issuance of ordinary shares is normally:
A. a financing decision made by managers.
B. an investment decision made by managers.
C. a dividend decision made by managers.
D. both a financing decision made by managers and an investment decision made by managers.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-02 Identify the major decisions made by financial managers and investors
Peirson - Chapter 01 #27
Section: 1.5 Fundamental concepts in finance

28. Which of the following statements is a disadvantage of a sole proprietorship?
A. The taxation treatment of partnerships can be a disadvantage.
B. It is more expensive to establish than a company.
C. It can be difficult to raise funds for expansion.
D. There are more regulatory requirements than a company.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #28
Section: 1.3 Business structures

29. Which of the following statements is an advantage of a partnership?
A. It can combine the wealth and talents of several individuals.
B. The partners are personally liable for the debts of the partnership.
C. The partnership has an indefinite life.
D. Additional capital can be raised relatively by issuing additional shares on the stock market.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #29
Section: 1.3 Business structures

30. The value of derivative securities depends on the value of:
A. the company value derived from analysts expectations.
B. some underlying security.
C. market interest rates.
D. the structure of the business.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #30
Section: 1.5 Fundamental concepts in finance

31. The possibility that managers may pursue their own objectives rather than shareholder interests is known as the _________ problem.
agency

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #31
Section: 1.5 Fundamental concepts in finance

32. The shareholders of most companies have _______________, meaning that if the company is unable to pay its debts, the owners of fully paid shares are not obliged to contribute further to repay the debt.

limited liability

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #32
Section: 1.3 Business structures

33. A company is a separate legal entity formed under the _______________.
Corporations Act 2001

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #33
Section: 1.3 Business structures

34. Compared with other forms of business structure, a ___________ is subject to the most onerous regulation.
company

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #34
Section: 1.3 Business structures

35. An investor who is ______________ will choose a risky investment only if the expected return on the investment is high enough to compensate the investor for bearing the risk.
risk averse

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #35
Section: 1.5 Fundamental concepts in finance

36. The purchasing power of money increases over time as a result of ____________.
inflation

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #36
Section: 1.5 Fundamental concepts in finance

37. Owners of a sole proprietorship are protected by limited liability.

FALSE

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #37
Section: 1.3 Business structures

38. The company's financial objective is to maximise the market value of shareholders' wealth.

TRUE

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #38
Section: 1.4 The companys financial objective

39. A company has an indefinite life.

TRUE

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #39
Section: 1.3 Business structures

40. In Australia, most large businesses are partnerships:

FALSE

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-03 Identify the major types of business entities
Peirson - Chapter 01 #40
Section: 1.3 Business structures

41. The market value of a company is calculated as the sum of the net assets and owners equity on the company's balance sheet:

FALSE

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #41
Section: 1.5 Fundamental concepts in finance

42. It is better to receive a sum of money next year than to receive the same amount today:

FALSE

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #42
Section: 1.5 Fundamental concepts in finance

43. An efficient capital market is one in which securities and other assets are fairly priced:

TRUE

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #43
Section: 1.5 Fundamental concepts in finance

44. If the interest rate is 10% per annum, most people would rather receive $1 now than $1.06 in one year's time:

TRUE

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
EQUIS: Apply knowledge
Graduate Attributes: Problem-solving
Learning Objective: 01-05 Identify and explain the fundamental concepts in finance
Peirson - Chapter 01 #44
Section: 1.5 Fundamental concepts in finance

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