Test Bank for Contemporary Financial Management 14th Moyer

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MULTIPLE CHOICE

1 : A multinational corporation ____.
A : has direct investments in manufacturing and/or distribution facilities in more than one country
B : exports finished goods for sale in another country
C : imports raw materials from another country
D : has a manufacturing representative in another country

Correct Answer : A

2 : The difference between merchandise exports and imports is known as the ____.
A : transaction exposure
B : difference in purchasing power
C : goods and services trade balance
D : import/export reserve

Correct Answer : C

3 : The interest rate at which banks in the Eurocurrency market lend to each other is known as the ____.
A : Eurocurrency currency rate (ECR)
B : London interbank offered rate
C : exchange rate
D : interest rate parity

Correct Answer : B

4 : From the perspective of a U.S. firm, an exchange rate quoted as $1.47 per British pound is known as a(n) ____ quote.
A : hedge
B : direct
C : futures
D : indirect

Correct Answer : B

5 : If Japanese yen are deposited in a bank in Paris, the deposits would be called ____
A : Eurofrancs
B : European Currency Unit
C : Eurobond
D : Euroyen

Correct Answer : D

6 : If the spot rate for Swiss francs is $0.6658/franc and the 180-day forward rate is $0.6637, the market is indicating that the Swiss franc is expected to _____.
A : strengthen relative to the dollar
B : weaken relative to the ECU
C : lose value relative to the dollar over the next 6 months
D : gain value relative to the dollar over the next 6 months

Correct Answer : C

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7 : Which of the following is not a correct statement about foreign currency futures?
A : futures contracts have a standardized maturity date
B : futures contracts are an exchange-traded agreement
C : futures contracts are not liquid
D : futures contracts are marked to market daily

Correct Answer : C

8 : The most important foreign currency futures market in the United States is the ____.
A : Chicago Board of Trade
B : New York Mercantile Exchange
C : Commodity Exchange
D : Chicago Mercantile Exchange

Correct Answer : D

9 : The buyer of a foreign currency call option has the ____ a fixed amount of a foreign currency.
A : right to sell
B : right but not the obligation to buy
C : obligation to buy, only at expiration,
D : obligation to buy

Correct Answer : B

10 : Eurodollars are U.S. dollars that have been deposited in _____.
A : foreign banks
B : foreign branches of U.S. banks
C : foreign subsidiaries
D : either foreign banks or foreign branches of U.S. banks

Correct Answer : D

11 : If the exchange rate from U.S. dollars to Canadian dollars is $0.80/Canadian dollar, then the exchange rate from Canadian dollars to U.S. dollars is _____.
A : $0.80 Canadian $/US dollar
B : $1.25 Canadian $/US dollar
C : $1.20 Canadian $/US dollar
D : $8.00 Canadian $/US dollar

Correct Answer : B

12 : If the exchange rate from U.S. dollars to Swiss francs is $0.20/franc, then the exchange rate from francs to dollars is _____.
A : 0.20 francs/dollar
B : 0.80 francs/dollar
C : 5.0 francs/dollar
D : 2.0 francs/dollar

Correct Answer : C

13 : If the spot rate (in U.S. dollars) for Japanese yen is 0.00703 and the 180-day forward rate is

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0.00717, then the yen is trading at a(n) ____.
A : expected gain
B : forward premium
C : reciprocal
D : forward discount

Correct Answer : B

14 : If the forward (direct quote) exchange rate is lower than the spot rate, then the currency is said to be trading at a ____.
A : forward premium
B : forward gain
C : forward discount
D : forward loss

Correct Answer : C

15 : Financial middlemen include _____.
A : securities brokers
B : securities dealers
C : investment bankers
D : All of these are correct

Correct Answer : D

16 : The New York Stock Exchange is an example of a _____.
A : money market
B : capital market
C : primary financial market
D : secondary financial market

Correct Answer : D

17 : The Standard & Poors 500 Stock Price Index is a ____ index.
A : price weighted
B : market value-weighted
C : price average
D : None of these are correct

Correct Answer : B

18 : Securities not listed on exchanges are said to be traded
A : on the AMEX
B : as composite transactions
C : over the counter
D : on the regional exchanges

Correct Answer : C

19 : Financial intermediaries include _____.
A : securities brokers
B : commercial banks
C : securities dealers

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D : All of these are correct

Correct Answer : B

20 : ____ markets deal in long-term securities having maturities greater than one year.
A : Credit
B : Money
C : Commodity futures
D : Capital

Correct Answer : D

21 : ____ markets deal in short-term securities having maturities of one year or less.
A : Credit
B : Money
C : Capital
D : Capital and credit

Correct Answer : B

22 : Which of the following (if any) are not financial intermediaries?
A : commercial bank
B : thrift institution
C : securities broker
D : All of these are financial intermediaries

Correct Answer : C

23 : In the ____ market, the firm receives the proceeds from the sale of new securities.
A : over-the-counter
B : secondary financial
C : fully integrated
D : primary financial

Correct Answer : D

24 : A savings and loan association is an example of which type of financial intermediary?
A : commercial bank
B : investment company
C : finance company
D : thrift institution

Correct Answer : D

25 : In any economy as a whole, the actual savings for a given period of time must ____ the actual investments.
A : be greater than
B : be unrelated to
C : equal
D : be less than

Correct Answer : C

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26 : Financial intermediaries _____.
A : issue secondary claims to the lender
B : are compensated for their services by fixed fees
C : include both brokers and dealers
D : issue primary claims to the lender

Correct Answer : A

27 : The main purpose of the U.S. financial system is to facilitate the transfer of funds from _____.
A : financial middlemen to financial intermediaries
B : surplus spending units to deficit spending units
C : primary claimholders to secondary claimholders
D : lenders to financial intermediaries

Correct Answer : B

28 : Money markets deal in securities having maturities of ____; capital market securities have maturities ____.
A : less than 18 months; greater than 18 months
B : one year or less; greater than one year
C : less than 9 months; greater than 9 months
D : less than 6 months; greater than 6 months

Correct Answer : B

29 : Commercial banks are an important source of _____.
A : mortgage loans
B : equity loans
C : real estate loans
D : short-term loans and term loans

Correct Answer : D

30 : Finance companies obtain funds by _____.
A : issuing their own equity securities
B : accepting both demand and time deposits
C : issuing their own debt securities
D : pooling funds

Correct Answer : C

31 : Changes in the tax code that speed up depreciation _____ the present value of investment cash flows and therefore make the investment _____ desirable.
A : decrease; more
B : decrease; less
C : increase; more
D : increase; less

Correct Answer : C

32 : The interest rate in the Eurodollar market is related to _____.
A : the DOW

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B : the stock market
C : the LIBOR
D : interest rates in the United States

Correct Answer : C

33 : Capital markets in financially sophisticated economies are not perfectly efficient due to _____.
A : anomalous events
B : excessive extrapolation by investors
C : refusal to sell losing stocks
D : All of these are correct

Correct Answer : D

34 : Commercial banks are a major source of term loans. These loans are best used for financing _____.
A : the expansion of the business
B : the establishment of overseas operations
C : current assets such as inventory or accounts receivable
D : the payment of dividends

Correct Answer : C

35 : The Dow Jones Industrial Average is calculated using the _____.
A : total market value of 30 stocks
B : stock price of 30 large, well-established industrial corporations
C : a weighted index of 30 stocks
D : industrial, railroad, financial, and utility stocks

Correct Answer : B

36 : Insider trading is defined as _____.
A : an individual using proper trading rules
B : an individual buying or selling using non-SEC disclosure rules
C : an individual buying or selling on the basis of material nonpublic information
D : a zero-plus game

Correct Answer : C

37 : Capital markets are said to be efficient. This means _____.
A : they process stock trades accurately and quickly
B : the market provides quick access to a firms financial statements
C : security prices quickly reflect all economically relevant information
D : accurate stock quotes are quickly available to all investors

Correct Answer : C

38 : Ex post returns differ from ex ante returns in that they represent ____ values rather than ____ values.
A : estimated; actual
B : accounting; economic
C : actual; estimated

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D : economic; accounting

Correct Answer : C

39 : The fact that no investor can expect to earn excess returns based on an investment strategy using only historical stock price or return information is an example of ____ market efficiency.
A : strong-form
B : weak-form
C : semiweak-form
D : semistrong-form

Correct Answer : B

40 : With semistrong-form market efficiency, no investor can expect to earn excess returns based on an investment strategy using any ____ information.
A : past market price
B : market value
C : publicly available
D : private

Correct Answer : C

41 : In an efficient capital market, all security investments will have a(n) ____.
A : required rate of return that exceeds the cost of capital
B : positive NPV
C : required rate of return that is zero
D : NPV of zero

Correct Answer : D

42 : In an efficient capital market, corporate diversification is ____.
A : unnecessary
B : inexpensive
C : detrimental to corporate managers
D : of great benefit

Correct Answer : A

43 : The barriers to the free flow of capital among the major world capital markets include all of the following EXCEPT ____.
A : low transaction costs
B : taxation policies
C : foreign exchange risks
D : legal restrictions

Correct Answer : A

44 : For the financial manager, taxes have important implications for ____.
A : capital expenditure decisions
B : leasing decisions
C : capital structure policy
D : All of these are correct

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Correct Answer : D

45 : Changes in the tax code that slow down depreciation ____ the present value of investment cash flows and therefore make the investment ____ desirable.
A : decrease; more
B : decrease; less
C : increase; more
D : increase; less

Correct Answer : B

46 : In an efficient capital market ____.
A : required returns equal expected returns
B : investors will have holding period returns equal to zero
C : purchase of any security yields zero profit
D : purchasing stocks is no better than gambling

Correct Answer : A

47 : If the spot rate for the British pound is $1.5077 and the 180-day forward rate is $1.4934, what is the approximate annualized forward premium (discount)?
A : premium of 1.90%
B : premium of 0.97%
C : discount of (-)1.90%
D : discount of (-)0.97%

Correct Answer : C

48 : If the spot rate for the Japanese yen is $0.009204 and the 90-day forward rate is $0.009227, what is the approximate annualized forward premium (discount)?
A : premium of 1.00%
B : premium of 0.50%
C : discount of -0.99%
D : premium of 0.25%

Correct Answer : A

49 : Christy purchased 100 shares of Good Idea stock for $48 last year. Yesterday she sold the stock for $45. If she received $4 in dividends during the time she held the security, what is her holding period return (round % to 2 decimals)?
A : 2.08%
B : 8.30%
C : -6.30%
D : 14.60%

Correct Answer : A

50 : If an investor purchased 100 shares of Biggee stock for $30 per share six months ago, and then sold the stock today for $33 per share, what was the investors holding period return if a total of $1 per share in dividends was received over the six-month period (round % to 1 decimal)?
A : 10.0%

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B : 27.1%
C : 17.1%
D : 13.3%

Correct Answer : D

51 : What is the holding period return to an investor who bought 100 shares of Oil Slick stock nine months ago for $36 per share, received two $50 dividend checks, and sold the stock today at $38 a share (round % to 2 decimals)?
A : 5.56%
B : 8.33%
C : 11.11%
D : 6.94%

Correct Answer : B

52 : If a treasury bond can be purchased for $9,450 today and the bond holder will receive $850 in interest and the face value at maturity is $10,000, what is the holding period return (round % to 1 decimal)?
A : 14.8%
B : 5.8%
C : 6.7%
D : 12.6%

Correct Answer : A

53 : You bought 100 shares of Risky Venture stock six months ago for $14 per share and sold it yesterday for $12. The company paid a total of $0.24 per share in dividends to you during the time you held the stock. What was your holding period return (round % to 2 decimals)?
A : -25.14%
B : -16.67%
C : -12.57%
D : 16.00%

Correct Answer : C

54 : Maher purchased 100 shares of Chill Pill Pharmaceuticals at $30 per share last spring and sold them in six months for $36 per share. The stock paid no dividend. What was Mahers holding period return?
A : 40%
B : 20%
C : 10%
D : 5%

Correct Answer : B

55 : Two years ago you bought 100 shares of Big Bubba convertible preferred stock at $25 per share. The preferred stock had an annual dividend of $2.125 per share, and a total of $3.19 in dividends per share have been paid so far. Today the company announced that the stock is redeemable for $26.70 plus accrued and unpaid dividends, for a total of $27.76. Alternatively, holders may convert their shares of preferred stock at a conversion rate of 1.6393 shares of Big Bubba common stock for each share of preferred stock. If the closing price of Big Bubba common stock is $27.50, what is your holding period return on the conversion option (round %

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to 2 decimals)?
A : 93.08%
B : 23.80%
C : 80.32%
D : 64.60%

Correct Answer : A

56 : If the spot rate (in U.S. dollars) for Japanese yen is 0.00703 and the 180-day forward rate is 0.00717, then the yen is trading at an annualized forward ____ (round % to 2 decimals).
A : premium of 4.04%
B : premium of 3.98%
C : premium of 3.91%
D : discount of 3.89%

Correct Answer : B

57 : Lear purchased 100 shares of Quitcha Twitchin Anti-inch Cream stock at $30 per share last year and sold them eleven months later for $24 per share. The shares split 2 for 1 shortly after Lear purchased the stock. If the stock paid $0.25 per share in dividends last year, what is Lears holding period return (round to 2 decimals)?
A : 61.67%
B : -19.17%
C : 21.67%
D : 6.17%

Correct Answer : A

58 : Which of the following reflect(s) the implications of income taxes for financial managers?I. Interest payments on debt incurred by the firm are not tax deductible for the firm.II. Preferred stock and common stock dividends are tax deductible for the firm and are used as often as possible to raise capital.
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements I and II are correct.
D : Neither statement I nor II is correct.

Correct Answer : D

59 : For a company with positive pre-tax earnings and a 35 percent income tax rate, a new debt issue that increases interest by $500,000 would cost the company ____.
A : $175,000
B : $325,000
C : $500,000
D : $675,000

Correct Answer : B

60 : Which of the following is correct regarding the forms of market efficiency?I. In an efficient capital market stock prices provide an unbiased estimate of the true value of an enterprise.II. In an efficient capital market, stock prices reflect a present value of the firms expected cash flows.
A : Only statement I is correct
B : Only statement II is correct

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C : Both statements I and II are correct
D : Neither statement I nor II is correct

Correct Answer : C

61 : Which of the following statements is (are) correct about financial intermediaries?I. Financial intermediaries primarily operate within the secondary market.II. Examples of financial intermediaries are: commercial banks, thrift Institutions and the Internal Revenue Service.
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements I and II are correct.
D : Neither statement I nor II is correct.

Correct Answer : D

62 : There are three degrees of market efficiency. All of the following statements are correct EXCEPT ____.
A : The weak form efficiency states that no investor can earn excess returns based on historical price or return information.
B : The strong form of efficiency states that no investor can consistently earn excess returns since all public and private information is reflected in stock prices.
C : The semi-strong form of efficiency states that no investor can earn excess returns based on an investment strategy using publicly available information.
D : Market efficiency is a hard and fast rule that has been verified in real-world situations.

Correct Answer : D

63 : Most U.S. Treasury bonds are traded in ____.
A : The Wall Street Journal
B : stock market indexes
C : listed security exchanges
D : over-the-counter markets

Correct Answer : D

64 : An example of a financial middleman is a(n) ____.
A : commercial bank
B : stock-broker
C : insurance company
D : thrift institution

Correct Answer : B

65 : An example of a listed security exchange within the secondary market is ____.
A : OTC
B : NYSE
C : NASDAQ
D : automated quotations

Correct Answer : B

66 : As a group, net savers are ____.
A : businesses

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B : households
C : government
D : partnerships

Correct Answer : B

67 : Trading on the NYSE is conducted by members of the exchange. The members that execute orders and act as agents on behalf of their clients are ____.
A : floor brokers
B : exchange runners
C : designated market makers
D : SEC agents

Correct Answer : A

68 : The difference between the bid price and the ask price on a security is the ____.
A : spread
B : value
C : asset factor
D : commission

Correct Answer : A

69 : There are many reasons for the financial crisis in 2007. The most significant event closely associated with this crisis is ____.
A : the stock market crash
B : the U.S. real estate bubble
C : government overspending
D : the use of financial hedging

Correct Answer : B

70 : In the financial crisis of 2007, there was cheap money coming from emerging markets. Examples of emerging markets are all of the following EXCEPT ____.
A : South Korea
B : Australia
C : India
D : China

Correct Answer : B

71 : Although there was a financial crisis in 2007-2010, some firms were able to weather the crisis. These firms had all of the following characteristics that were directly responsible for their ability to survive the crisis EXCEPT ____.
A : tight control over fixed and variable costs
B : low business risk
C : a business model that encouraged risk taking by management that paid off
D : selling products that appealed to cost-conscious consumers

Correct Answer : C

72 : The difference between a put option and a call option is that ____.
A : a call option is the option to buy

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B : a put option allows the purchase of extra stock
C : a call option cannot be resold
D : a put option requires the owner of the put option to sell on a specific date

Correct Answer : A

73 : Foreign currency options reflect ____ forward and future contracts.
A : an obligation for
B : an alternative to
C : a delivery of
D : a specific requirement of

Correct Answer : B

74 : Foreign currency forward and future options provide a means for firms to control ____.
A : foreign government intervention
B : foreign political problems
C : foreign exchange risk
D : the foreign transport of the goods

Correct Answer : C

75 : An investor decides to sell his stock based on information he received about some internal audit revealing that the company has severe financial problems. Trading on this information is called ____.
A : private trading
B : insider trading
C : options trading
D : information trading

Correct Answer : B

76 : ____ finance seeks to identify why some investors react irrationally when confronted with unexpected ups and downs in the market.
A : Systematic
B : Weak-form
C : Asset evaluation
D : Behavioral

Correct Answer : D

77 : Each of the following markets, at some time in the past, has experienced a bubble that impacted the financial market EXCEPT ____.
A : real estate
B : stock market
C : gold
D : blue chip

Correct Answer : D

78 : Each of the following contributed to the start of the financial crisis in 2007 EXCEPT ____.
A : the Gulf War
B : the creation of complex mortgage-backed securities

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C : very low interest rates
D : use of high leverage by individuals and corporations

Correct Answer : A

79 : Each of the following has tax implications as it concerns financial management decisions EXCEPT ____.
A : capital structure policy
B : capital budgeting
C : inventory control
D : leasing

Correct Answer : C

80 : Financial intermediaries are compensated for their services by ____.
A : the interest rate spread
B : salary
C : stock options
D : preferred stock certificates

Correct Answer : A

81 : Financial assets include all of the following EXCEPT ____.
A : money
B : debt securities
C : equity securities
D : inventory

Correct Answer : D

ESSAY

82 : What are the differences between the primary and secondary markets?

Correct Answer : The primary market allows the investor to purchase new securities. Net proceeds from such sales go to the issuing corporation.?The secondary market allows the investor to purchase securities that are already in circulation. These are purchased through an organized security exchange (for example NYSE), or in the over-the-counter market, and none of the proceeds go to the issuing corporation.

83 : What is the purpose and importance of the stock market indexes?

Correct Answer : Stock market indexes give a broad indication of how the stock market or a segment of it performed during a particular day. The most well-known index is the Dow Jones Industrial Average (DJIA), which is composed of 30 stocks.

84 : Explain the degrees of market efficiency and their applicability to the stock market.

Correct Answer : 1. Weak-form market efficiency: No investor can earn excess returns based on historical price information or return information.2. Semistrong-form market efficiency: No investor can earn excess returns based on an investment strategy using any publicly

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available information. Stock prices consistently incorporate any new information about the stock or the issuing company.3. Strong-form market efficiency: No investor can consistently earn excess returns based on any public or private information. Stock prices reflect all information, both public and private.The number of investors who have traded with insider knowledge provides graphic evidence that the strong form efficiency does not hold.

85 : Define the differences between the money market and the capital market.

Correct Answer : Money market securities are short-term with maturities of one year or less. Most large corporations participate in the money markets, especially when they have more cash on hand than needed to run their businesses.?Capital market securities are long-term with maturities greater than one year. Corporations enter the capital markets to obtain long-term funds, either debt or equity. Many corporations are unable to generate enough funds internally to satisfy their needs, so they raise additional funds externally in the capital markets.

86 : List the types of disclosure forms required by the SEC, and explain what information is contained in each form.

Correct Answer : The various SEC forms listed in the text are:1. 10-K. This is the annual report to the SEC required from firms with publicly held securities.2. 10-Q. This form contains quarterly information that updates the 10-K.3. 14-A filing or Proxy Statement. This form is submitted prior to annual shareholder meetings detailing matters to be discussed and voted upon by the stockholders.

87 : List changes that have occurred within financial markets regulation as a result of the passage of the Sarbanes-Oxley Act of 2002.

Correct Answer : The significant changes that have occurred are:1. Top management is directly responsible for the accuracy of their firm’s financial statements. They must personally certify the accuracy of the financial statements and internal control systems.2. The act strengthened the independence and accountability of the audit committee of the firm’s board of directors.3. The act creates the Public Company Accounting Standards Board to oversee the auditing industry to improve the independence and credibility of auditors and the auditing function.4. The act requires that auditors now certify a firm’s financial control system and report any material weaknesses.5. The act creates structural separation between financial analysts and investment bankers working for the same firm.6. The act institutes new rules to ensure independence of financial analysts.

88 : How did the mortgage market provide the impetus for the financial crisis that began in 2007?

Correct Answer : Mortgage markets in the United States evolved to take advantage of easy money flowing in from around the world. Mortgages became securitized. Banks in the past were very cautious with regard to who they lent to and ensured that borrowers had sufficient income and collateral to repay their loans to the bank. Beginning in the 1980s, this changed. Banks and other mortgage brokers and lenders would originate the loans and then resell them to other financial institutions. These institutions would bundle the mortgages into a mortgage-backed security or bond and sell them to investors around the world. These bonds were perceived to be very safe. But in the early 2000s the demand exceeded the supply and investment banks found a way to expand supply by reaching into more risky mortgages (known as subprime). As long as real estate prices were going up and the economy and employment levels were high, these derivative securities enjoyed a great deal of popularity and the default risk on these bonds was very low. The increase in home prices was unsustainable, and in the end the owners of these

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derivatives suffered huge losses. There arose fear of lending money between banks, which eventually led to a liquidity crisis that resulted in banks and financial institutions being liquidated or taken over by a stronger financial institution.

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