

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Arnold discusses four vital financial issues facing management. The first is "What type of finance should we raise?". What are the other three? 1) _____
 - A) How can we maximise profit?
 - B) How do we manage risk?
 - C) In what projects are we going to invest our shareholders' money?
 - D) How do we create and measure shareholder value?

- 2) In which two ways do financial institutions and markets encourage growth and progress? 2) _____
 - A) By controlling interest rates
 - B) By discouraging small savers
 - C) By mobilising savings
 - D) By encouraging investment

- 3) Which of the following are essential aspects of a financial managers knowledge? 3) _____
 - A) Investment appraisal methods
 - B) Financial markets
 - C) Cash and risk management
 - D) All of the above

- 4) Which of the following options best describes how financial managers primarily contribute to their firms' success? 4) _____
 - A) Through investment and finance decisions based on a search for profit maximisation over the next five years.
 - B) Through investment and finance decisions based on a search for company growth and stability.
 - C) Through finance decisions that aim to reduce costs of production.
 - D) Through investment in sound advice from independent advisers.

- 5) What name is given to the theory which views the firm as a network of contracts which specify the roles played by various participants and their returns, with shareholders entitled to any surplus after other participants have received their contractual return? 5) _____
 - A) Network theory
 - B) Participant-role theory
 - C) Stakeholder theory
 - D) Contractual theory

- 6) Which of the following best describes the overall objective of the firm, according to contractual theory? 6) _____
 - A) Maximisation of shareholder wealth over the long-term
 - B) A maximisation of returns to all stakeholders
 - C) Long-term maximisation of profit
 - D) Short-term maximisation of profit

- 7) What are the two most important possible uses for cash created by a firm's operations ? 7) _____
 - A) Purchase of new shares
 - B) Cash return to investors
 - C) Selling assets to investors
 - D) Reinvestment

- 8) Financial institutions encourage the flow of savings into investment by acting in two key roles? What are those roles? 8) _____
 - A) Auditors
 - B) Brokers
 - C) Asset transformers
 - D) Savers

- 9) Which three of the following institutions are classified as being part of the banking sector? 9) _____
 A) Building societies B) Insurance funds
 C) Retail banks D) Finance houses
- 10) Which three of the following generally describe the preferences and situation of a primary investor? 10) _____
 A) A preference for low risk B) Having small amounts to invest
 C) A wish for high agreement costs D) A preference for high liquidity
- 11) Which type of organisation most commonly works to alleviate the conflict of preferences between primary investors and ultimate borrowers? 11) _____
 A) Firms B) Transformed asset holders
 C) Government D) Financial institutions
- 12) In which two ways do households most directly provide investment funds for business? 12) _____
 A) Through taxes
 B) Through returns on bonds and shares
 C) By direct purchase of shares
 D) By making deposits with financial institutions
- 13) Which statement best describes the role of financial intermediaries? 13) _____
 A) They minimise the costs of the flow of funds from ultimate borrowers to primary investors.
 B) They facilitate the flow of funds to primary investors from ultimate borrowers at low cost.
 C) They facilitate the flow of funds from primary investors to ultimate borrowers at low cost.
 D) They maximise the cost benefits from the flow of funds from ultimate borrowers to primary investors.
- 14) Which of the following best describes the situation in an economy without financial intermediaries? 14) _____
 A) Monitoring costs are low. B) Agreement costs are high.
 C) Search costs are low. D) Risk to investors is high..
- 15) Which three statements correctly relate, according to the finance theory view, to the maximisation of shareholder wealth? 15) _____
 A) It can be ensured by maximising profit-based bonuses for senior management.
 B) It is equivalent to maximising the discounted cash flow to shareholders over a long time horizon.
 C) In an efficient market it is equivalent to maximising the share price.
 D) It is equivalent to maximising the purchasing power available from a shareholding in a firm.
- 16) Which two of the following properties best describe the savings characteristics of primary investors (households)? 16) _____
 A) Low liquidity. B) Small amounts.
 C) High search costs. D) Low risk.
- 17) What name is given to the process of creating intermediate securities for the primary investor while transferring funds to the ultimate borrower. 17) _____
 A) Financial intermediacy. B) Fund transfer.
 C) Asset transformation. D) Security provision.

- 18) Which three of the following properties best describe the investment characteristics of ultimate borrowers (businesses)? 18) _____
 A) Large amounts. B) Low liquidity.
 C) High search costs. D) High risk.
- 19) What is the key reason why financial institutions can transform assets and encourage transfer of funds? 19) _____
 A) They can work individually with savers' funds.
 B) They can use their own funds for investment.
 C) They can invest the dividends.
 D) They have economies of scale.
- 20) Which three of the following are types of asset transformation? 20) _____
 A) Maturity transformation. B) Risk transformation.
 C) Volume transformation. D) Saver transformation.
- 21) Which three out of the following are reduced by financial markets? 21) _____
 A) Liquidity. B) Monitoring costs.
 C) Search costs. D) Risk.
- 22) In the banking sector, which organisations generally carry out hire purchase, factoring and leasing? 22) _____
 A) Building societies. B) Finance houses.
 C) Investment banks. D) Financial advisers.
- 23) Which three of the following act as financial intermediaries between primary investors and ultimate borrowers? 23) _____
 A) Financial managers. B) Asset transformers.
 C) Financial markets. D) Brokers.
- 24) Which three of the following economies of scale enable intermediaries to transform assets effectively? 24) _____
 A) Low customer numbers. B) Efficiencies in gathering information.
 C) Lower transaction costs. D) Risk spreading.
- 25) Which two of the following are classified as long-term savings institutions? 25) _____
 A) Wholesale banks. B) Insurance funds.
 C) Pensions funds. D) Finance houses.
- 26) What is the main activity in the primary market of the stock exchange? 26) _____
 A) Brokers sell shares for investors.
 B) The firm raises funds from investors.
 C) Investors buy and sell shares between each other.
 D) Investors raise funds from firms.
- 27) What is the main activity in the secondary market of the stock exchange? 27) _____
 A) Brokers sell shares for investors.
 B) Investors buy and sell shares between each other.
 C) Investors raise funds from firms.
 D) The firm raises funds from investors.

- 28) What term is used to describe a situation in which investors can sell quickly at low cost? 28) _____
 A) Free markets. B) Market minimisation.
 C) Investment opportunity. D) Market liquidity.
- 29) OEICs are a hybrid between which two types of investment? 29) _____
 A) Annuities. B) Unit trusts.
 C) Investment trusts. D) Cash investments.
- 30) Which of the following is not a main area of activity for a wholesale bank? 30) _____
 A) Fund management. B) Raising external finance for companies.
 C) Eurocurrency transfers. D) Broking and dealing.
- 31) Which three of the following are classified as 'risk-spreaders'? 31) _____
 A) Investments trusts. B) OEICs.
 C) Money markets. D) Unit trusts.
- 32) What particular benefit do brokers offer when matching a provider of finance with a user of funds? 32) _____
 A) Monitoring costs are reduced. B) Agreement costs are increased.
 C) Search costs are reduced. D) Risk is reduced.
- 33) Which three of the following are economies of scale available to intermediaries but not small investors? 33) _____
 A) Ability to benefit from low liquidity. B) Reduced transaction costs.
 C) Ability to spread risk. D) Efficiency in gathering information.
- 34) The 'conflict of preferences' occurs because: 34) _____
 A) Primary investors want low-cost liquidity and certainty, and the ultimate borrowers want long-term risk-bearing capital.
 B) Preference shares do not carry a sufficiently high dividend, given their risk.
 C) Customers of firms have different needs to those assumed by suppliers.
 D) Primary investors want a completely risk-free investment with high returns and borrowing firms offer only high risk/low returns as their securities.
- 35) In which type of market is one currency most commonly exchanged for another? 35) _____
 A) Bond markets. B) Foreign exchange.
 C) Derivatives. D) Money market.
- 36) Which one of the following statements correctly applies to the type of market described? 36) _____
 A) Investment trusts are not limited companies.
 B) Bond markets are primarily concerned with financing imports and exports.
 C) Euronext.liffe is a market set up to permit the purchase and sale of life assurance policies.
 D) Wholesale banks deal primarily with low-volume, high-value transactions.
- 37) Which one of the following is the most important benefit of defining a firm's overall objectives. 37) _____
 A) To provide information to savers. B) To enable progress to be assessed.
 C) To enable effective information flow. D) To provide a focus for decision making.

- 38) Which three of the following statements are correct? 38) _____
- A) The money markets are markets in lending and borrowing money for more than two years.
 - B) Unit trusts are open-ended collective investment funds.
 - C) The foreign exchange markets are those markets in which one currency is exchanged for another.
 - D) Pension funds typically invest between 40 and 80 per cent of their funds in shares.
- 39) What is meant by a balanced stakeholder approach? 39) _____
- A) Aiming to satisfy the needs of creditors, customers, employees, shareholders and society in general.
 - B) Ensuring that investors spread their risk in a balanced way.
 - C) Ensuring that a company has a wide spread of investors.
 - D) Aiming to involve creditors, customers, employees, shareholders and society in general in decision making.
- 40) In firms that are attractive to shareholders the actions of senior management align with the interests of shareholders. What term is used to describe such a situation? 40) _____
- A) A Company congruence
 - B) Profit maximisation
 - C) Goal congruence
 - D) Competitive maximisation
- 41) Select the two alternative factors that can be said to demonstrate that shareholder wealth has been maximised. 41) _____
- A) Management and production costs have been minimised.
 - B) The sum of discounted cash flows has been maximised.
 - C) Purchasing power has been maximised.
 - D) Discounted cash flow has been minimised.
- 42) What is the key aim when maximising shareholder wealth? 42) _____
- A) To maximise the flow of discounted cash flow over a long time period.
 - B) To minimise the flow of cash in the forms of dividends over a long time period.
 - C) To maximise the size of dividends over a short time period.
 - D) To maximise the flow of discounted cash flow over a short time period.
- 43) Which one of the following options best describes the principal-agent problem? 43) _____
- A) When the shareholders have to incur the expense of ensuring that managers act in the interest of the shareholders.
 - B) When there is a breakdown of communication between shareholders and brokers.
 - C) When brokers ask for additional payments to carry out a transaction.
 - D) When stockbrokers fail to collect principal payments on a financial security on behalf of the owner.
- 44) Which three of the following are most likely to be solutions to the principal-agent problem? 44) _____
- A) Link managerial rewards to shareholder wealth improvement.
 - B) Selling shares and the takeover threat.
 - C) Corporate governance regulation.
 - D) Increasing management pay levels.

- 45) Which three of the following statements are correct? 45) _____
- A) Unit trusts are open-ended collective investment funds.
 - B) The main function and source of profits of wholesale banks is to take deposits and lend money.
 - C) Foreign banking in the UK is UK banks conducting transactions in sterling with non-UK residents.
 - D) Pension funds typically invest between 40 and 80 per cent of their funds in shares.
- 46) Which three of the following statements concerning financial intermediaries are correct? 46) _____
- A) They are able to reduce the transaction costs of transferring funds from savers to borrowers in society compared with the primary lenders.
 - B) They only act as agents between savers and borrowers.
 - C) They generally display efficiencies in gathering information as compared with primary investors.
 - D) They are often more able to spread risk than primary investors.
- 47) Which of the following best identifies the main risk of having clear separation between ownership and control? 47) _____
- A) Stakeholder control, where non-investors have excessive influence on management.
 - B) Managerialism, where managers take decisions in their own interests rather than those of the shareholders.
 - C) Profit maximisation, where managers adopt long-term views that conflict with the overall needs of the organisation.
 - D) Agent-principle problems, where the agent may take uncontrolled, unprincipled actions.
- 48) What does it mean when stakeholders have been 'satisfied'? 48) _____
- A) They have been given just enough to make their contribution worthwhile.
 - B) They are the only stakeholders who feel satisfied.
 - C) They have been given more than their contribution justified.
 - D) They have been given returns based on partial, biased information.
- 49) Which three of the following are reasons why a firm should use external finance to maximise shareholder wealth? 49) _____
- A) It counters the tendency for management to pursue goals for their own benefit.
 - B) To survive in a competitive world.
 - C) This approach encourages high levels of motivation in managers.
 - D) The shareholders own the firm.
- 50) Profit maximisation is not the same as shareholder wealth maximisation. Select the two things that a profit comparison does not take into account? 50) _____
- A) Future prospects.
 - B) Risk.
 - C) Communication.
 - D) Management expertise.

Answer Key

Testname: UNTITLED1

- 1) B, C, D
- 2) C, D
- 3) D
- 4) B
- 5) D
- 6) A
- 7) B, D
- 8) B, C
- 9) A, C, D
- 10) A, B, D
- 11) D
- 12) C, D
- 13) C
- 14) B
- 15) B, C, D
- 16) B, D
- 17) C
- 18) A, B, D
- 19) D
- 20) A, B, C
- 21) B, C, D
- 22) B
- 23) A, B, D
- 24) B, C, D
- 25) B, C
- 26) B
- 27) B
- 28) D
- 29) B, C
- 30) C
- 31) A, B, D
- 32) C
- 33) B, C, D
- 34) A
- 35) B
- 36) D
- 37) D
- 38) B, C, D
- 39) A
- 40) C
- 41) B, C
- 42) A
- 43) A
- 44) A, B, C
- 45) A, C, D
- 46) A, C, D
- 47) B
- 48) A
- 49) A, B, D
- 50) A, B