

Name: _____ Student # _____

BUSI 2504 Fall 2010
Quiz 1

1. Jeanette needs \$15,000 as a down payment for a house six years from now. She earns 3.5 percent on her savings. Jeanette can either deposit one lump sum today for this purpose or she can wait a year and deposit a lump sum. How much additional money must Jeanette deposit if she waits for one year rather than making the deposit today?
 - A) \$307.00
 - B) \$333.33
 - C) \$427.09
 - D) \$121.03
 - E) \$166.67

2. Which one of the following groups is the goal of financial management centered around?
 - A) existing shareholders
 - B) current creditors
 - C) existing management
 - D) potential new shareholders
 - E) the CRA

3. Your credit card company quotes you a rate of 16.9 percent. Interest is billed monthly. What is the actual rate of interest you are paying?
 - A) 18.27 percent
 - B) 16.90 percent
 - C) 18.03 percent
 - D) 17.33 percent
 - E) 17.67 percent

4. Which one of the following statements concerning a sole proprietorship is correct?
 - A) The company must pay separate taxes from those paid by the owner.
 - B) The ownership of the firm is easy to transfer to another individual.
 - C) The legal costs to form a sole proprietorship are quite substantial.
 - D) The owner can generally raise large sums of capital quite easily.
 - E) The life of the firm is limited to the life span of the owner.

5. Sue invested \$5,000 eleven years ago at 12 percent. Terri has the same amount saved today as Sue has. Terri also earns 12 percent but she only invested \$2,500. How long ago did Terri invest her money?
 - A) 21.5 years
 - B) 22.0 years
 - C) 17.1 years
 - D) 17.4 years
 - E) 17.9 years

6. You are comparing two annuities with equal present values. The applicable discount rate is 4.5 percent. One annuity pays \$2,000 each month for twenty years, starting today. How much does the second annuity pay each month for twenty years if it will pay the first payment one month from today?
- A) \$2,008.75
 - B) \$2,009.50
 - C) \$2,010.00
 - D) \$2,009.00
 - E) \$2,007.50
7. Your uncle left you an inheritance in the form of a trust. The trust agreement states that you are to receive \$750 each year, starting today and continuing for 25 years. What is the value of this inheritance today if the applicable discount rate is 5.8 percent?
- A) \$10,623.33
 - B) \$9,772.46
 - C) \$9,989.82
 - D) \$11,004.28
 - E) \$10,339.26
8. Which form of business structure faces the greatest agency problems?
- A) general partnership
 - B) corporation
 - C) sole proprietorship
 - D) limited liability company
 - E) limited partnership
9. You collect model airplanes. One particular model is currently valued at \$275. If this model increases in value by 5 percent annually, it will be worth _____ six years from now and _____ twelve years from now.
- A) \$368.53; \$493.86
 - B) \$368.53; \$442.89
 - C) \$368.53; \$467.08
 - D) \$368.01; \$442.89
 - E) \$368.01; \$461.34
10. You are considering two loans. The terms of the two loans are equivalent with the exception of the interest rates. Loan A offers a rate of 8.5 percent compounded monthly. Loan B offers a rate of 8.9 percent compounded semi-annually. Loan _____ is the better offer because_____.
- A) It does not matter as both loans have equal costs.
 - B) B; the APR is lower.
 - C) B; the EAR is lower.
 - D) A; the APR is lower.
 - E) A; the EAR is lower.
11. Which one of the following actions by a financial manager creates an agency problem?
- A) increasing current costs in order to increase the market value of the stockholders' equity
 - B) refusing to borrow money when doing so will create losses for the firm
 - C) agreeing to pay bonuses based on the market value of the company stock
 - D) refusing to lower selling prices if doing so will reduce the net profits
 - E) agreeing to expand the company at the expense of stockholders' value

12. Twenty years from now, you would like to purchase a cottage located on the shores of your favourite lake. You expect that you will have \$250,000 available at that time for this purchase. You could afford a home that is currently selling for _____ if the homes increase in value by 3 percent annually, but if the homes increase in value by 5 percent annually, you can only afford a home priced at _____ today.
- A) \$144,676; \$100,469
 - B) \$127,023; \$92,687
 - C) \$144,676; \$111,068
 - D) \$138,419; \$114,097
 - E) \$138,419; \$94,222

Answer Key

1. C
2. A
3. A
4. E
5. C
6. E
7. E
8. B
9. A
10. E
11. E
12. E