

Fin 534 (Week 1 Homework Assignment Chapter 1)

1. Which of the following statements is CORRECT?

- a. One of the disadvantages of a sole proprietorship is that the proprietor is exposed to unlimited liability.
- b. It is generally easier to transfer one's ownership interest in a partnership than in a corporation.
- c. One of the advantages of the corporate form of organization is that it avoids double taxation.
- d. One of the advantages of a corporation from a social standpoint is that every stockholder has equal voting rights, i.e., "one person, one vote."
- e. Corporations of all types are subject to the corporate and personal income tax.

Answer: A

2. Which of the following would be most likely to lead to higher interest rates on all debt securities in the economy?

- a. Households start saving a larger percentage of their income.
- b. Households start saving a larger percentage of their income.
- c. The level of inflation begins to decline.
- d. Corporations step up their expansion plans and thus increase their demand for capital.
- e. The Federal Reserve uses monetary policy in an attempt to stimulate the economy.

Answer: D

3. Which of the following statements is CORRECT?

- a. If General Electric were to issue new stock this year it would be considered a secondary market transaction since the company already has stock outstanding.
- b. Capital market transactions only include preferred stock and common stock transactions.
- c. The distinguishing feature between spot markets versus futures markets transactions is the maturity of the investments. That is, spot market transactions involve securities that have maturities of less than one year, whereas futures markets transactions involve securities with maturities greater than one year.
- d. Both NASDAQ "dealers" and NYSE "specialists" hold inventories of stocks.
- e. An electronic communications network (ECN) is a physical location exchange.

Answer: D

4. Which of the following statements is CORRECT?

- a. A good goal for a firm's management is maximization of expected EPS.
- b. Most business in the U.S. is conducted by corporations, and corporations' popularity results primarily from their favorable tax treatment.
- c. Because most stock ownership is concentrated in the hands of a relatively small segment of society, firms' actions to maximize their stock prices have little benefit to society.
- d. Corporations and partnerships have an advantage over proprietorships because a sole proprietor is exposed to unlimited liability, but the liability of all investors in the other types of businesses is more limited.
- e. The potential exists for agency conflicts between stockholders and managers.

Answer: E

5. Which of the following statements is NOT CORRECT?

- a. When a corporation's shares are owned by a few individuals and are not traded on public markets, we say that the firm is "closely, or privately, held."
- b. "Going public" establishes a firm's true intrinsic value, and it also insures that a highly liquid market will always exist for the firm's shares.
- c. When stock in a closely held corporation is offered to the public for the first time, the transaction is called "going public," and the market for such stock is called the new issue market.
- d. Publicly owned companies have shares owned by investors who are not associated with management, and public companies must register with and report to a regulatory agency such as the SEC.
- e. It is possible for a firm to go public and yet not raise any additional new capital at the time.

Answer: B