

1. The form of economics most relevant to managerial decision-making within the firm is:

- a. macroeconomics
- b. welfare economics
- c. free-enterprise economics
- d. microeconomics
- e. none of the above

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BPROG: Analytic

TOPICS: The Decision-Making Model

KEYWORDS: BLOOM'S: Knowledge

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2. If one defines incremental cost as the change in total cost resulting from a decision, and incremental revenue as the change in total revenue resulting from a decision, any business decision is profitable if:

- a. it increases revenue more than costs or reduces costs more than revenue
- b. it decreases some costs more than it increases others (assuming revenues remain constant)
- c. it increases some revenues more than it decreases others (assuming costs remain constant)
- d. all of the above
- e. b and c only

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BPROG: Analytic

TOPICS: Implications of Shareholder Wealth Maximization

KEYWORDS: BLOOM'S: Comprehension

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3. In the shareholder wealth maximization model, the value of a firm's stock is equal to the present value of all expected future ____ discounted at the stockholders' required rate of return.

- a. profits (cash flows)
- b. revenues
- c. outlays
- d. costs
- e. investments

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

QUESTION TYPE: Multiple Choice

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HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Analytic
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4. Which of the following statements concerning the shareholder wealth maximization model is (are) true?
- a. The timing of future profits is explicitly considered.
 - b. The model provides a conceptual basis for evaluating differential levels of risk.
 - c. The model is only valid for dividend-paying firms.
 - d. a and b
 - e. a, b, and c

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Analytic
TOPICS: Objective of the Firm
KEYWORDS: BLOOM'S: Comprehension
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5. According to the profit-maximization goal, the firm should attempt to maximize short-run profits since there is too much uncertainty associated with long-run profits.
- a. true
 - b. false

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Analytic
TOPICS: Implications of Shareholder Wealth Maximization
KEYWORDS: BLOOM'S: Comprehension
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6. According to the innovation theory of profit, above-normal profits are necessary to compensate the owners of the firm for the risk they assume when making their investments.
- a. true
 - b. false

ANSWER: b
POINTS: 1
DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Analytic
TOPICS: The Role of Profits
KEYWORDS: BLOOM'S: Comprehension
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7. According to the managerial efficiency theory of profit, above-normal profits can arise because of high-quality managerial skills.

- a. true
- b. false

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Analytic
TOPICS: The Role of Profits
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8. Which of the following (if any) is not a factor affecting the profit performance of firms:

- a. differential risk
- b. innovation
- c. managerial skills
- d. existence of monopoly power
- e. all of the above are factors

ANSWER: e
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Analytic
TOPICS: The Role of Profits
KEYWORDS: BLOOM'S: Comprehension
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9. Agency problems and costs are incurred whenever the owners of a firm delegate decision-making authority to management.

- a. true
- b. false

ANSWER: a
POINTS: 1

DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Analytic
TOPICS: Separation of Ownership and Control: The Principal-Agent Problem
KEYWORDS: BLOOM'S: Comprehension
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10. Economic profit is defined as the difference between revenue and ____.
- a. explicit cost
 - b. total economic cost
 - c. implicit cost
 - d. shareholder wealth
 - e. none of the above

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Analytic
TOPICS: The Decision-Making Model
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11. Managerial economics seeks to accomplish all of these goals EXCEPT:
- a. identify the alternatives
 - b. select the choice that accomplishes the objective most efficiently
 - c. take into account the opportunities
 - d. take into account the likely actions & reactions of rival decision makers
 - e. all of the above

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Reflective Thinking - BPROG: Analysis
TOPICS: What is Managerial Economics?
KEYWORDS: BLOOM'S: Comprehension
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12. Various executive compensation plans have been employed to motivate managers to make decisions that maximize shareholder wealth. These include:
- a. cash bonuses based on length of service with the firm

- b. bonuses for resisting hostile takeovers
- c. requiring officers to own stock in the company
- d. large corporate staffs
- e. a, b, and c only

ANSWER: c
 POINTS: 1
 DIFFICULTY: Moderate
 QUESTION TYPE: Multiple Choice
 HAS VARIABLES: False
 NATIONAL STANDARDS: United States - BPROG: Analytic
 TOPICS: Separation of Ownership and Control: The Principal-Agent Problem
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13. The Saturn Corporation (once a division of GM) was permanently closed in 2009. What went wrong with Saturn?
- a. Saturn's cars sold at prices higher than rivals Honda or Toyota, so they could not sell many cars.
 - b. Saturn sold cars below the prices of Honda or Toyota, earning a low 3% rate of return.
 - c. Saturn found that young buyers of Saturn automobiles were very loyal to Saturn and GM.
 - d. Saturn implemented a change management view that helped make first time Saturn purchasers trade up to Buick or Cadillac.
 - e. all of the above

ANSWER: b
 POINTS: 1
 DIFFICULTY: Easy
 QUESTION TYPE: Multiple Choice
 HAS VARIABLES: False
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14. The common factors that give rise to all principal-agent problems include the
- a. unobservability of some manager-agent action
 - b. presence of random disturbances in team production
 - c. the greater number of agents relative to the number of principals
 - d. a and b only
 - e. none of the above

ANSWER: d
 POINTS: 1
 DIFFICULTY: Moderate
 QUESTION TYPE: Multiple Choice
 HAS VARIABLES: False
 NATIONAL STANDARDS: United States - BPROG: Analytic

TOPICS: Separation of Ownership and Control: The Principal-Agent Problem
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15. A Real Option Value is:

- a. An option that been deflated by the cost of living index makes it a “real” option.
- b. An opportunity cost of capital.
- c. An opportunity to implement cost savings or revenue expansion in a flexible business plan.
- d. An objective function and a decision rule that comes from it.
- e. Both a and b.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Reflective Thinking - BPROG: Analysis
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16. Which of the following will increase (V_0), the shareholder wealth maximization model of the firm:

$V_0 \cdot (\text{shares outstanding}) = \sum_{t=1}^{\infty} (\pi_t) / (1+k_e)^t + \text{Real Option Value}.$

- a. Decrease the required rate of return (k_e).
- b. Decrease the stream of profits (π_t).
- c. Decrease the number of periods from ∞ to 10 periods.
- d. Decrease the real option value.
- e. All of the above.

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Reflective Thinking - BPROG: Analysis
TOPICS: Objective of the Firm
KEYWORDS: BLOOM'S: Comprehension
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17. The primary objective of a for-profit firm is to _____.

- a. maximize agency costs
- b. minimize average cost
- c. maximize total revenue
- d. set output where total revenue equals total cost

e. maximize shareholder value

ANSWER: e
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Reflective Thinking - BPROG: Analysis
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18. Possible goals of Not-For-Profit (NFP) enterprises include all of the following EXCEPT:

- a. maximize total costs
- b. maximize output, subject to a breakeven constraint
- c. maximize the happiness of the administrators of the NFP enterprise
- d. maximize the utility of the contributors
- e. a and c

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Reflective Thinking - BPROG: Analysis
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19. The flat-screen plasma TVs are selling extremely well. The originators of this technology are earning higher profits. What theory of profit best reflects the performance of the plasma screen makers?

- a. risk-bearing theory of profit
- b. dynamic equilibrium theory of profit
- c. innovation theory of profit
- d. managerial efficiency theory of profit
- e. stochastic optimization theory of profit

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Analytic
TOPICS: The Role of Profits
KEYWORDS: BLOOM'S: Knowledge
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20. To reduce Agency problems, executive compensation should be designed to
- be paid based on quarterly sales
 - create incentives so that managers act like owners of the firm
 - avoid making the executives own shares in the company
 - be an increasing function of the firm's expenses
 - all of the above

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BPROG: Reflective Thinking - BPROG: Analysis

TOPICS: Separation of Ownership and Control: The Principal-Agent Problem

KEYWORDS: BLOOM'S: Comprehension

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21. Recently, the American Medical Association changed its recommendations on the frequency of pap-smear exams for women. The new frequency recommendation was designed to address the family histories of the patients. The optimal frequency should be where the marginal benefit of an additional pap-test:
- equals zero.
 - is greater than the marginal cost of the test
 - is lower than the marginal cost of an additional test
 - equals the marginal cost of the test
 - both a and b.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

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22. Shirking of one's duties is often encountered in team production settings because
- few individuals are well-intentioned
 - teamwork is recognized as less significant than individual performance
 - teammates face a dilemma posed by a dominant strategy to shirk
 - reputation effects dominate in long-term teams
 - teamwork can be less than the sum of the individual parts

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
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23. The moral hazard in team production arises from
- a. poorly designed team membership
 - b. lack of proper assignment of individual tasks
 - c. disorganization in groups
 - d. a conflict between tactically best interest and one's duty
 - e. insufficient experience

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Reflective Thinking - BPROG: Analysis
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24. Which of the following types of firms should expect a higher rate of return?
- a. an auto dealership
 - b. a biotech pharmaceutical firm
 - c. a manufacturer of screws and bolts
 - d. a paper products firm
 - e. all of the above

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
NATIONAL STANDARDS: United States - BPROG: Reflective Thinking - BPROG: Analysis
TOPICS: The Role of Profits
KEYWORDS: BLOOM'S: Comprehension
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25. Managers should concentrate on maximizing shareholder value alone if which of the following conditions are met?
- a. complete markets

- b. no significant asymmetric information
- c. known recontracting costs
- d. all of the above
- e. none of the above

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

NATIONAL STANDARDS: United States - BPROG: Reflective Thinking - BPROG: Analysis

TOPICS: Implications of Shareholder Wealth Maximization

KEYWORDS: BLOOM'S: Comprehension

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