Please write **T** for true or **F** for false in the space provided.

_____1. Even if the interest rate is only 1%, a lump sum of $1,000 today is preferred to $100 a year for ten years.

_____2. Discounting refers to the process of bringing the future back to the present.

_____3. An annuity of $100 for ten years is currently less valuable if interest rates are 10% instead of 12%.

_____4. It takes longer than eight years to retire a $24,000 loan at 8% if the annual payment is $3,000.

_____5. Higher rates of interest are associated with greater present values.

_____6. Bonds only sell for a discount when the firm is having financial difficulty.

_____7. If interest rates fall, the prices of existing bonds also fall.

_____8. The document stating the terms of a bond is the indenture.

_____9. Income bonds are the safest bonds issued by a firm.

_____10. Many bonds have a call feature that permits the firm to retire the bonds prior to maturity.

_____11. An investor may anticipate that a bond will be called if interest rates have risen.

_____12. Arrearage means that a cumulative preferred stock's dividend is not being paid.

_____13. A 5% stock dividend reduces a firm's total equity.

_____14. Once a firm has earnings, management has essentially two choices: distribute or retain them.

_____15. A stock dividend has no impact on a firm's liabilities or the price of its stock.

_____16. A reverse split (i.e., 1 for 2) increases the number of shares the firm has outstanding.

______17. The value of a stock depends in part on future dividends and on the investors' required return.

______18. The return on an investment in stock depends on both dividends and capital gains.

______19. The dividend-growth model assumes the firm will be liquidated at some specified time in the future.

______20. If the valuation of a stock is $10 and its price is $13, the investor should establish a short position in the stock.

______21. The P/E ratio measures a stock's price relative to the firm's equity.

______22. Retained earnings are part of the stockholders' equity in the firm.

______23. If a firm has retained earnings, it has an equal amount of cash.

______24. The sum of a firm's liabilities and equity equals the sum of its assets.

______25. Accounts receivable are adjusted for doubtful accounts (i.e., accounts that may not be paid).

______26. If liabilities are decreased or assets increased, that generates a cash inflow.

______27. An increase in a current asset or long-term liability produces a cash inflow.

______28. The higher the "times-interest-earned," the safer (i.e., more assured) should be interest payments.

______29. The numerical value of the quick ratio can never exceed the numerical value of the current ratio.

______30. The more rapidly receivables turn over, the more funds the firm has tied up in accounts receivable.

______31. An undercapitalized firm has excessive debt relative to equity.

______32. The higher the ratio of debt to total assets, the smaller is the use of financial leverage.

Circle the choice that best completes the statement or answers the question.

1. The future value of a dollar

   1. increases with lower interest rates
   2. increases with higher interest rates
   3. increases with longer periods of time
   4. decreases with longer periods of time

   a. 1 and 3
   b. 1 and 4
   c. 2 and 3
   d. 2 and 4

2. Which is the largest if the interest rate is 10%?

   a. present value of $100 after five years
   b. present value of $100 annuity for five years
   c. future value of $100 annuity for five years
   d. future value of $100 after five years

3. Which of the following bonds are supported by collateral?

   a. convertible bonds
   b. income bonds
   c. equipment trust certificates
   d. debentures

4. The yield to maturity on a bond is

   a. the interest paid divided by the price of the bond.
   b. the bond's coupon divided by the principal amount.
   c. the price appreciation earned by the bond.
   d. interest plus price appreciation (or loss) achieved by holding the bond to maturity.

5. The yield to maturity assumes that the

   a. bond will be called.
   b. coupon will increase with higher interest rates.
   c. coupon will decrease with lower interest rates.
   d. bond will not be called.

6. If interest rates rise, a firm may retire a bond issue by

   1. calling it.
   2. repurchasing it.
   3. issuing new bonds and redeeming the old bonds.

   a. 1 and 2
   b. 1 and 3
   c. 2 and 3
   d. only 2

7. On which of the following bonds or certificates is interest exempt from federal income taxation?

   a. equipment trust certificates
   b. zero coupon bonds
   c. federal bonds such as savings bonds
   d. state of Florida bonds

8. Preferred stock and bonds are similar because

   a. they both have voting power.
   b. interest and dividend payments are legal obligations.
   c. neither interest nor dividends are tax deductible.
   d. both are a source of financial leverage.

9. Dividends come at the expense of

   a. interest.
   b. retained earnings.
   c. liabilities.
   d. stock.

10. The retention of earnings instead of paying dividends

   a. may result in greater growth and higher stock prices.
   b. is advantageous for all stockholders.
   c. is favored by stockholders in lower income tax brackets.
   d. leads to lower future dividends.

11. Dividends are paid on the

   a. declaration date.
   b. ex-dividend date.
   c. date of record.
   d. distribution date.

12. The value of a stock should decline if the

a. risk-free rate declines.
b. return on the market declines.
c. firm's beta rises.
d. earnings multiple rises.

13. The value of a stock may increase if

1. risk is increased.
2. risk is decreased.
3. investors' required rate of return increases.
4. investors' required rate of return decreases.

a. 1 and 3
b. 1 and 4
c. 2 and 3
d. 2 and 4

14. A P/E ratio considers

a. profits relative to earnings.
b. price of the stock relative to earnings.
c. price of a preferred stock relative to earnings.
d. profits relative to equity.

15. Accountants suggest that assets should be valued at

a. market.
b. cost.
c. the lower of market or cost.
d. the higher of market or cost.

16. Liabilities equal

a. assets.
b. equity.
c. equity minus assets.
d. assets minus equity.

17. Which of the following is a cash inflow?

a. an increase in accounts receivable
b. a decrease in inventory
c. distributing cash dividends
d. a decrease in long-term debt

18. The current ratio excludes

a. accrued interest.
b. inventory.
c. cash equivalents.
d. retained earnings.