Financial Concepts

1) Liquidity occurs when:
   a. an asset is converted into money without loss of value
   b. stocks, bonds, or mutual funds are sold and the cash proceeds are deposited
   c. antiques, collectibles, or artworks are changed into cash
   d. money is converted into oil, kerosene, or the fluid form of gold or silver

   **Competency:** Financial instruments and institutions

2) What are funds called that banks must hold against deposit liabilities?
   a. mutual funds
   b. closed-end funds
   c. required reserves
   d. overnight funds rate

   **Competency:** Financial instruments and institutions

3) How do you calculate the principal value after one year?
   a. multiply the principal value by the interest rate
   b. multiply the initial principal by the interest rate
   c. divide the principal value by the interest rate
   d. divide the initial principal by the interest rate

   **Competency:** Time value of money

4) The technique used to determine the level of output at which total expenses equal total revenue is called:
   a. ratio analysis
   b. capital budgeting
   c. EBIT (earnings before interest and taxes)
   d. break-even analysis

   **Competency:** Cost of capital and capital budgeting
5) The percentage that an investor earns annually from a bond is the:
   a. nominal yield
   b. yield to maturity
   c. current yield
   d. discounted rate of return

   **Competency:** Valuation and rates of return

6) The valuation of a convertible bond is:
   a. easy
   b. difficult
   c. a precise calculation
   d. impossible

   **Competency:** Valuation and rates of return

7) What is the debt ratio?
   a. debt divided by total assets
   b. debt times total assets
   c. debt divided by equity
   d. debt times equity

   **Competency:** Financial analysis

8) As management is deciding whether or not to substitute debt for equity, the primary objective is to:
   a. maximize its value
   b. minimize debt
   c. avoid adding equity financing
   d. maximize equity financing

   **Competency:** Capital investment decisions
9) The graph that shows the relationship between risk and the required rate of return is:
   a. the Efficient Frontier
   b. the Capital Asset Pricing Line (CAPL)
   c. the Security Market Line
   d. default risk

   **Competency:** Financial risks and returns

10) What measure of growth and trade do multinational businesses use?
   a. Gross National Product (GNP)
   b. balance of payments
   c. Gross National Debt (GND)
   d. Price Interest Rate (PRI)

   **Competency:** International finance

**ANSWER KEY:**
1. a
2. c
3. b
4. d
5. c
6. b
7. a
8. a
9. c
10. b