QUIZ 4

I. True or False

1. The basic EOQ model assumes that orders to replenish the inventory of an item are filled instantaneously.
2. If the lead-time is constant and known with certainty, the optimal order quantity and the time when an order should be placed are not affected.
3. Financial forecasting involves the minimization and estimation of a firm's future cash need.
4. Working capital equals current assets less current liabilities.
5. Working capital decisions affect both the expected profitability and the risk of a firm.
6. A company's operating cycle typically consists of two primary activities: purchasing resources and producing the product.
7. No one combination of short-and long-term debt is necessarily optimal for all firms.
8. Virtually every activity within a firm generates cash flows.
9. The probabilistic models for cash management assume that cash payments occur at a uniform certain rate over time.
10. The most basic requirement for a firm's marketable securities is Safety.

II. Multiple Choice

1. Marketable securities are primarily:

A. short-term debt instruments.

B. short-term equity securities.

C. long-term debt instruments.

D. long-term equity securities.

2. Which would be an appropriate investment for temporarily idle corporate cash that will be used to pay quarterly dividends three months from now?

A. A long-term Aaa-rated corporate bond with a current annual yield of 9.4 percent.

B. A 30-year Treasury bond with a current annual yield of 8.7 percent.

C. Ninety-day commercial paper with a current annual yield of 6.2 percent.

D. Common stock that has been appreciating in price 8 percent annually, on average, and paying a quarterly dividend that is the equivalent of a 5 percent annual yield.

3. In determining an optimal credit extension policy, which of the following controllable variables should a company's financial manager consider?

A. collection effort, credit standards, and multilateral netting

B. credit standards, credit terms, and collection effort

C. credit terms, credit standards, and inventory cycle

D. credit terms, credit standards, and lead time

4. Which of the following is part of the five C's of capital?

A. character, capital, and conditions

B. capital, conditions, and cash discount

C. capital, collateral, and credit period

D. None of the above

5. The basic EOQ model makes a number of assumptions, including:

A. fluctuating demand

B. uncertain lead times

C. zero lead-time

D. none of the above

6. Wing Corporation's annual carrying costs are 25 percent of the inventory value. The product cost is $65 a unit. The cost of placing an order is $100, and the EOQ is 785 units. If the corporation plans to sell 50,000 units next year, what should be the total annual ordering and carrying costs?

A. $12,748

B. $31,882

C. $6,442

D. $2,506,378

7. Large cash balances have made many firms ________.

A. poor investments

B. attractive takeover targets

C. raise their compensating balances

D. decrease their float

8. Which of the following is a reason for a firm to hold liquid asset balances?

A. transactional motive

B. income tax motive

C. future requirements

D. both a and c

9. Which of the following criteria should be considered when investing in marketable securities?

A. default risk

B. maturity date

C. rate of return

D. all of the above

10. If credit terms of "2/10, net 40" are offered, the approximate cost of not taking the discount and paying at the end of the credit period would be closest to which of the following? (Assume a 365-day year.)

A. 18.6%

B. 24.3%

C. 24.8%

D. 30.0%