



Module 1 Exam – SOLUTIONS VERSION A

Instructions

- This is an exam. Do not talk.
- Your books, notes, and electronic devices must be put completely away, out of sight.
- **Do not open the exam** until you are told to begin.
- Once you leave the exam room, you may not return. No bathroom or other breaks during the exam
- Place your Scantron on top of the envelope for your Discussion Section number and exam version.
- Keep the question paper when you leave.
- If you do not have a Scantron form/pencil, take your seat, raise your hand and wait with your \$10
- Any contravention of these instructions will lead to your ejection from the exam with zero points
- While you are waiting to begin, enter the following information on your Scantron:

LINE:	INFO TO ENTER:	EXPLANATION:
Name:	LAST, First, Middle	Make sure your family name comes first
Subject:	1234-5678	Your Student ID Number
Test No.:	Axxxx	This is your test version (ABCD) and unique ID number (0 to 9999)
Date:	1	This is the module number for this exam
Hour (Period):	101, 102, 103, etc.	This is your Discussion Section number – see below

Section	Day/time	GSI Name
101	Tu 8-9A	Antonio Ciudad
102	Tu 9-10A	Antonio Ciudad
103	Tu 10-11A	Celso Garcia
104	Tu 11A-12P	Cristina Paulsen
105	Tu 12-1P	Grant Stanley
106	Tu 1-2P	Grant Stanley
107	Tu 2-3P	Luis Arnaboldi
108	Tu 3-4P	Luis Arnaboldi
109	Wed 8-9A	Jonathan Heyne
110	Wed 9-10A	Jessica Slocovich

Section	Day / Time	GSI Name
111	Wed 10-11A	Jessica Slocovich
112	Wed 11A-12P	Adriana Bonifaz
113	Wed 12-1P	Luis Arnaboldi
114	Wed 1-2P	Adriana Bonifaz
115	Wed 3-4P	Celso Garcia
116	Wed 4-5P	Maria Antolinez
117	Wed 5-6P	Maria Antolinez
118	Th 8-9A	Jin Kim
119	Th 9-10A	Jin Kim
120	Th 10-11A	Cristina Paulsen

MAKE SURE TO:

- **BUBBLE IN ANSWERS FOR ALL 38 QUESTIONS ON YOUR SCANTRON**
- **FILL OUT ALL SCANTRON FIELDS AS EXPLAINED ABOVE**

**IF YOUR UNIQUE EXAM CODE IS MISSING FROM YOUR SCANTRON YOU WILL LOSE POINTS;
IF IT HAS BEEN USED BY ANOTHER STUDENT, YOU WILL AUTOMATICALLY SCORE A ZERO ON THIS EXAM.**

UGBA 10 – Principles of Business

MODULE 1 EXAM SOLUTIONS VERSION A – Fall 2019 9/20/2019

FINANCE & ACCOUNTING

Instructor: Professor Briginshaw

1) What is profit or earnings?

- A) Total money taken in by a corporation
- B) Increases in income from year to year
- C) Increases in a corporation's stock price
- D) Revenue generated by goods and services
- E) Difference between revenues and expenses

Answer: E

Explanation: E) Profits represent the difference between an organization's revenues and its expenses and profits are the goal of most businesses and allow people to open and expand businesses. REF: Chapter 1 of Custom text

2) When thinking of the concept of financial seniority, which items are paid back **last** (residual claim) if a company is liquidated for cash?

- A. Accounts payable
- B. Taxes payable
- C. Wages payable
- D. Common stock

Answer: D

Explanation: common stock, gets the residual value, but only once all liabilities are paid back
The key reference is Lecture 2 slide 11. See also: book page 47 and lecture 4 slide 6

3) As common practice, an executive or manager working within a firm to manage the profitability of a small group of products would receive information from...

- A) ...from the firm's financial accounting system.
- B) ...from the firm's managerial accounting system.
- C) ...from both the firm's financial accounting system and its forensic accounting system.
- D) ...from the firm's investment accounting system.
- E) As common practice, the executive would not receive any information from the firm's accounting system.

Answer: B

Explanation: Internal users, such as brand or product managers, use the firm's managerial accounting system. See page 41.

4) Which of the following refers to the US GAAP financial statement which includes company revenues and expenses?

- A) Income statement
- B) Statement of cash flows
- C) Balance sheet
- D) Revenue and Expense report
- E) Annual budget

Answer: A

Explanation: Revenues – expenses = income. May also be called a statement of operations, but is not referred to as a revenue and expense report (D). An annual budget (E) is an internal document, not a financial statement regulated by GAAP.

5) According to the Mankiw article in study.net/New York Times “Yes, There Is a Trade-Off Between Inflation and Unemployment” the curve depicting an inverse relationship between inflation and unemployment is called the...?

- A) Laffer Curve
- B) Phillips Curve
- C) Samuelson Curve
- D) Powell Curve

Answer: B

See: Mankiw reading (mentioned 12 times).

6) Which of the following circumstances would be **most indicative** of **labor market slack**?

- | | Unemployment rate | Labor Force Participation |
|----|-------------------|---------------------------|
| A) | Lower | Lower |
| B) | Lower | Higher |
| C) | Higher | Lower |
| D) | Higher | Higher |

Answer: C

Explanation: A higher unemployment rate indicates more people actively searching for work, and a lower labor participation rate indicates more folk “on the sidelines” due, for example, to early retirement. However, some non-participants could be “tempted back” into work if more jobs become available or salaries rise. Therefore, **both** of these groups (the unemployed and the non-participants in the labor force) form potential supply (i.e. slack) for the labor market. It’s clear (see for example the Mankiw reading) that unemployed people can be seen as labor market slack. Persons not participating in the labor market can be seen as “hidden slack”.

7) A customer has a bond fund which returns 2% per year before fees, and the fees/charges for the fund are 1% of the investment per year. In 2016, the customer invested \$10,000 in the fund. After three years, the customer’s funds would be closest to:-

- a) \$9700
- b) \$10,000
- c) \$10,300
- d) \$10,600

Answer: C

Explanation: Customer earns \$200 per year (2%) but pays \$100 in fees.

8) Anderson Cheese is a cheese shop. In January, Anderson finds some excellent cheese called Requeijão from Portugal. Anderson buys \$1500 worth for cash, paying the supplier and taking delivery in January. In February Anderson starts to sell the cheese, and deliver two thirds of the cheese to selected customers for a 100% markup in February. Anderson sells and delivers the remaining cheese to customers in **March**, at a 50% markup. Anderson’s customers pay cash

after 30 days (i.e. they pay in the month immediately after sale). What is the **Revenue for the three months** January, February and March?

	January	February	March
	Revenue	Revenue	Revenue
a)	-1500	0	2000
b)	-1500	2000	750
c)	0	2000	750
d)	0	1000	250

ANSWER: C

Explanation: January – no cheese sold, so revenue = 0

February: 2/3 of the \$1500 cheese is sold => cost of cheese is \$1000. The cheese is marked up by 100% => Revenue of \$2000

March: Remaining cheese is 1500-1000 = \$500 in cost. However, this cheese is only marked up 50% => Revenue of \$750

Notes: option A shows the cash flow, option D shows the income

Contribution Margin

9) Adama's Pizza pays \$2000 fixed rent per month and each pizza costs \$6 in ingredients and hourly paid labor. Pizzas sell for \$10 per pizza – how many Pizza's does Adama's need to sell to make a profit of \$400?

- a) 400 pizzas
- b) 500 pizzas
- c) 600 pizzas
- d) 700 pizzas

ANSWER: C

Explanation: Profit = Unit CM x Units – Fixed cost

If Profit = 400 => Units = (400+F)/Unit CM = \$2400/(10-6) = 600

10) Commissions based on sales volume and the cost of ingredients are two possible costs a pizza restaurant could incur. Thinking about a variable vs fixed cost framework, what type of costs would these each be?

	Sales commissions	Cost of ingredients
a)	Variable	Variable
b)	Variable	Fixed
c)	Fixed	Variable
d)	Fixed	Fixed

ANSWER: A

Explanation: Sales commissions and cost of ingredients each increase with activity

Use the following information to answer the next two questions

Trump's 50-Year Bond Dream Saves Little for American Taxpayers

By Liz McCormick and Saleha Mohsin

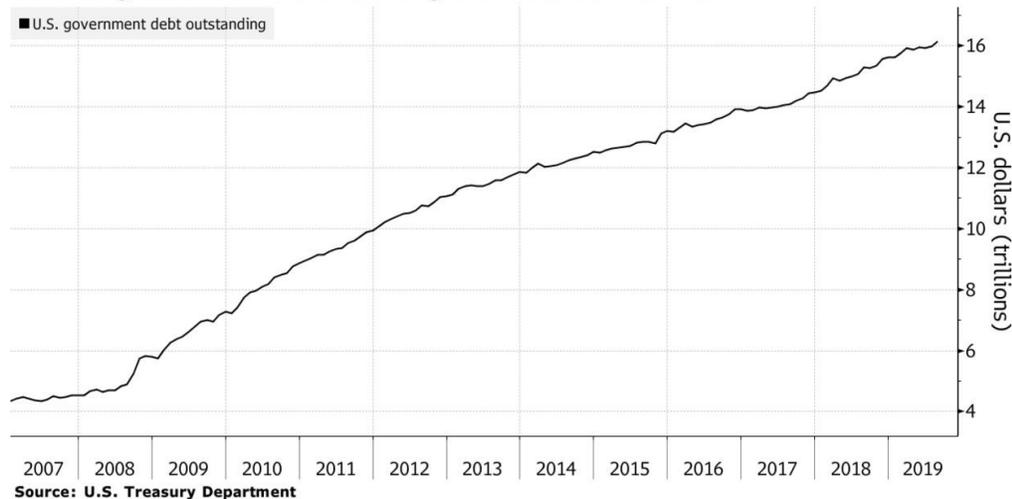
Bloomberg.com, September 13, 2019

Donald Trump's big idea to refinance America's burgeoning debt by selling ultra-long-term bonds, locking in historically low interest rates for a half-century or more, has never been all that popular on Wall Street...Even if the Treasury sold \$50 billion in 50-year bonds next year at a small premium to the 2.3% yield on 30-year bonds -- which some have pegged as a best-case scenario -- it wouldn't move the needle on interest costs.

True, it would defer the need to repay that amount far into the future and avoid potentially higher refinancing costs in the short-term. But it would be a drop in the bucket compared with the over \$10 trillion increase in the nation's debt burden that the Congressional Budget Office forecasts for the next decade. That growth is the main force driving up U.S. interest expenses.

Super-Sized Load

Ultra-long issuance not seen denting U.S. debt-service costs



11) Based on the above chart, which of the following **must be true**?

- A) Yields (interest rates) on US government debt are increasing
- B) Yields (interest rates) on US government debt are decreasing
- C) US fiscal policy over the period shown is expansionary
- D) US fiscal policy over the period shown is contractionary

ANSWER: C – an increase in government debt outstanding means that money spent on programs is greater than money coming in as taxes – the definition of an expansionary fiscal policy. See, for example, lecture 8 slide 31.

12) Suppose the US government issues fixed income 50 year bonds at 2.4%, rather than shorter term bonds at lower rates such as a 30 year bond paying 2.3%. This means that each investor

who invests \$1000 will receive fixed payments of \$24 per year ($2.4\% \times \1000) for 50 years, and then repayment of the \$1000. What is the strongest argument **for** the government doing this?

- A) Tighter synchronization between spending and taxing
- B) Decrease in the total debt outstanding
- C) Protects the government from an increase in interest rates above 2.4%
- D) Protects the bond buyer (investor) against increasing interest rates

Answer: C. A is incorrect as this is a way of postponing taxing away from spending (the opposite of synchronization). B is incorrect as the total debt would not change just by changing the maturity. D is wrong as the investor wants protection against **falling** interest rates.

13) What is the general term for resources used by a business to produce a good or service referred to as?

- A) Labor
- B) Human Resources
- C) Human capital
- D) Factors of production
- E) Economic systems

Answer: D

Explanation: D) Factors of production represent those things needed to produce goods and services and include things like labor, physical resources, capital, and entrepreneurs willing to take the risks. Ref: Book chapter 1

Use the following information to answer the next 2 questions

Adam purchased a share of Microsoft stock for \$30 on January 1 2018, then sold it one year later for \$34.75. In that time he received dividends of \$1.50.

14) What would the price appreciation be?

- A) \$34.75
- B) \$1.50
- C) \$4.75
- D) \$5.25
- E) \$6.25

Answer: C

Explanation: C) Price appreciation is an increase in the dollar value of an investment, thus you would subtract \$30 from \$34.75. $= \$4.75$

15. What was the dividend yield, as a percentage of the initial price on January 1?

- A) \$1.50
- B) 5%
- C) 16.4%
- D) 23.9%

Answer: B

Calculation: $\$1.50 \text{ dividend} / \$30 = 5\%$

See pages 125-126

16) Which of the following would be classified as an **intangible** asset?

- A) Cash
- B) Accounts receivable
- C) Buildings
- D) Goodwill

ANSWER: D

EXPLANATION: Goodwill is an intangible asset created on acquisition, see page 50.

17) When the value of a country's currency is **weak** in the international market, what is the **most likely** effect?

- A) Exports decrease because the cost of items is more expensive in the international market.
- B) Vacationers from the country benefit when they take an international vacation.
- C) Exports increase because the cost of items is more affordable in the international market.
- D) Both A and B are true.

ANSWER: C

Explanation: A weaker currency can buy less goods from other countries, thus making imports more expensive. However, other countries can buy more of the weak currency country's products, which makes its exports more affordable.

18) What type of loan is guaranteed by collateral?

- A) Unsecured loan
- B) Venture capital loan
- C) Angel investor loan
- D) Secured loan
- E) Corporate bond

Answer: D

Explanation: D) In a secured loan (asset-backed loan), the borrower guarantees repayment of the loan by pledging the asset as collateral to the lender.

19) Which of the following refers to the rules and procedures governing the content and form of financial reports?

- A) National bookkeeping standards
- B) Core competencies for accounting
- C) Accounting and financial rules
- D) National guidelines of accounting principles
- E) Generally accepted accounting principles

Answer: E

Explanation: E) GAAP is formulated by the Financial Accounting Standards Board (FASB) of the AICPA and should be used to determine whether a firm has controls to prevent errors and fraud. Ref: Book Chapter 2

20) A person will receive \$144 in 2 years from a business investment, what is the present value of this future payment if interest rate $r=20\%$?

- a) \$80
- b) \$100
- c) \$120
- d) \$121

ANSWER: B

EXPLANATION: $1.2^2 = 1.44$. $144/1.44 = \$100$

21) Assume that a 9% reserve requirement has been imposed on banks. A client of Wells Fargo gets a \$100 bill from her wallet. She deposits the \$100 in a checking account, and then the bank

loans the money (net of the reserve requirement) to another person in cash. What is the effect on the M-1 money supply of this series of transactions?

- a) There is no change in the M-1 Money supply
- b) The M-1 Money supply increases by \$100
- c) The M-1 Money supply increases by \$91
- d) The M-1 Money supply increases by \$191

Answer: C

Explanation: The client takes a \$100 bill from her wallet, which is already included in the M-1 money supply (cash in hand). The \$100 is then placed in the checking account, which does not cause a change in money supply as cash in hand and checking balances are both in M-1. However, then money is created when the \$91 loan is made. The original \$100 has been transformed into \$100 checking account balance for the account holder and \$91 (\$100 net of \$9 reserve requirement) cash in the hand of the borrower. So the change is $\$191 - \$100 = \$91$.

22) A city of 150,000 people has a large commercial sector bringing in businesses from the surrounding region. In 2007, there was 2.75 million square feet of commercial space available. Five years later, after a building boom, there was 5.5 million square feet of commercial space available.

Which effect will MOST likely occur?

- A) The equilibrium price of commercial real estate will not be affected.
- B) The increase in the supply of commercial real estate will lead to a corresponding increase in its price.
- C) The price of commercial real estate will decrease, absent a dramatic increase in demand.
- D) The increase in the supply of commercial real estate will lead to an increase in resource prices.
- E) The increase in supply will cause a corresponding increase in demand.

Answer: C

Explanation: C) Since the supply of commercial real estate has dramatically increased, unless there was a dramatic increase in demand, we would expect the price of commercial real estate to decrease.

23) What accounts for the extremely high market capitalization of Microsoft and Apple, as discussed in lecture?

- a) High Return on equity but no revenue growth
- b) Low Return on equity but high growth
- c) High return on equity with healthy revenue growth
- d) High profit margin but low return on equity

ANSWER: C

Ref: Discussed in lecture 4

24) Which of the following is figured by subtracting cost of revenues or cost of goods sold from revenues?

- A) Net income
- B) Operating Profit
- C) Net assets

- D) Gross Profit
- E) Earnings per share

Answer: D

Explanation: D) Revenue – cost of revenues = Gross profit . See page 51 and lecture 4 slide 12.

25) Which of the following is NOT part of the M-2 money supply?

- A) Currency at hand
- B) Common stock
- C) Balance in a checking account
- D) Currency value of time deposits

ANSWER: B

Explanation: A and C are included in M-1, and therefore are included in M-2 also, as M-1 is a subset of M-2. Time deposits are included in M-2 (but not M-1). Common stock is not included in either M-1 or M-2. See pages 78-79.

26) Which of the following is considered by many to be the BEST indicator of the market for common stocks in small cap companies?

- A) NASDAQ Composite
- B) Russell 2000
- C) Dow Jones Industrial Average
- D) Standard & Poor's 500
- E) New York Stock Exchange

ANSWER: B

Explanation: The Russell 2000 tracks smaller cap performance, see custom text page 124 and lecture 7 slide 19.

27) Unemployment in the United States at August 2019 (most recent data) as measured by the BLS (Bureau of Labor Statistics) is closest to....

- A) 0%
- B) 4%
- C) 8%
- D) 12%

ANSWER: B, as discussed in lectures 1, 2 and 5 (chart).

Financial Statement and ratio analysis: Use the following information on Edelman Inc to answer the next **three** questions. Assume that balance sheet numbers are both average and year-end, as needed.

Average stockholders' equity	\$100,000	Net income (current year)	\$15,000
Average total assets	\$300,000	Net sales (current year)	\$230,000
Current assets	\$25,000	Net sales (previous year)	\$200,000
Current liabilities	\$10,000		

28) What is the **return on equity** for Edelman?

- a) 5%
- b) 10%
- c) 15%
- d) 20%

ANSWER: C

Explanation: $\text{RoE} = \text{net income}/\text{equity} = \$15,000/\$100,000 = 15\%$

29) What is the **revenue growth** since previous year of Edelman?

- a) 5% b) 10% c) 15% d) 20%

ANSWER: C

Explanation: $\text{Revenue growth} = 230/200 - 1 = 1.15 - 1 = 15\%$

30) What is the **financial leverage or equity multiplier** (as defined in the Narayanan and Srinivasan study.net reading) for Edelman?

- a) 33% b) 67% c) 100% d) 300%

ANSWER: D

Explanation: $\text{Equity multiplier} = 300/100 = 300\%$

31) What does a planned economy rely on a centralized government to do?

- A) Support free enterprise in every way possible
- B) Allocate all or most factors of production
- C) Encourage citizens to buy shares of stock in small companies
- D) Keep its control activities to a minimum
- E) Direct workers to start their own small businesses

Answer: B

Explanation: B) A centralized government controls all or most of the factors of production. Ref: Book Chapter 1

32) The Federal Reserve has a **Dual Mandate**, meaning it has two main goals in conducting monetary policy. Which one of the following is **an element** of the “Fed’s” dual mandate?

- a) to maximize bond prices
- b) to increase stock prices
- c) to minimize employment
- d) to achieve price stability

Answer: D

Explanation: The Federal Reserve’s dual mandate was determined by Congress in 1977. It is to promote maximum sustainable employment and price stability. Price stability is usually interpreted as low and stable inflation. Lecture 6 slide 6.

33) All of the following are **characteristics** (rather than **functions**) of money **except**?

- A) Portability
- B) Durability
- C) Store of value
- D) Divisibility

Answer: C

Store of value is a **function** of money, but can also be performed by other things such as cows or buildings. See pages 76-77.

34) Which person is **least likely** to secure a good retirement income by their investments?

- A) Persons who rely only on social security
- B) A person who invests 5% of their salary beginning at age 25
- C) A person who invests 10% of their salary beginning at age 25
- D) A person who invests 15% of their salary beginning at age 55

Answer: A is least likely to have a comfortable retirement, as they will have no additional savings.

35) Which of the following alternatives best describes the role of the World Bank?

- A. The World Bank funds national improvements by making loans to build schools, roads, power plants and hospitals, etc.
- B. The World Bank requires countries to cut back social programs and spending to bring inflation under control
- C. The World Bank accepts deposits and makes loans, earns profits, and pays interest and dividends
- D. The World Bank serves as the Governments Bank, the Bankers' Bank, performs check clearing and controls the money supply.

Answer: A, see page 96. The other answers refer to B) (critical appraisals of) the IMF, C) Commercial banks and D) The Federal Reserve

36. A company has positive contribution margin, but negative (net) profit margin. What can we say about the company's prospects?

- A) The company can never be profitable, irrespective of scale
- B) With sufficient growth, the company can become profitable as it grows past its break-even point
- C) As the company increases its sales, its losses will widen further
- D) The company would be profitable now, if its financial leverage were higher

Answer: B

Explanation: A company with a positive contribution margin can achieve profitability by growth in units sold, so B is correct. Answers A and C are appropriate for a company with negative contribution margin. Financial leverage can boost positive returns, but it also makes negative returns **more** negative, so D is not true.

37. A

38. [Depends on version] [These answers refer to **version A**]