BUSINESS-ENVIRONMENT-AND-CONCEPTS Q&As

Certified Public Accountant (Business Environment & Concept)

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QUESTION 1

Osgood Products has announced that it plans to finance future investments so that the firm will achieve an optimum capital structure. Which one of the following corporate objectives is consistent with the announcement?

A. Maximize earnings per share.

B. Minimize the cost of debt.

C. Maximize the net worth of the firm.

D. Minimize the cost of equity.

Correct Answer: C

Choice "c" is correct. The optimal capital structure is the financial structure that would theoretically maximize shareholder wealth by maximizing the net worth of the company. Choices "a", "b", and "d" are incorrect. Strategies (not objectives) for creating an optimal capital structure to maximize net worth include:

1.

Maximizing earnings per share (choice "a").

2.

Minimizing the cost of debt (choice "b").

3.

Minimizing the cost of equity (choice "d").

4.

Maximizing cash flow (choice not given).

QUESTION 2

Under which of the following conditions is the supplier most able to influence or control buyers?

A. When the supplier\\'s products are not differentiated.

B. When the supplier does not face the threat of substitute products.

C. When the industry is controlled by a large number of companies.

D. When the purchasing industry is an important customer to the supplying industry.

Correct Answer: B

Choice "b" is correct. When there are few good substitutes for a supplier\\'s product, the supplier has market power (think of a monopoly). As a result, the supplier is better able to control buyers and act as a price setter rather than a price taker. Choice "a" is incorrect. When supplier\\'s products are not differentiated, buyers will be indifferent about which supplier they purchase from. In other words, if firms sell identical products (think of perfect competition) the product of one firm is a perfect substitute for the product of another firm. In this case, firms are price takers, not price setters. Choice "c" is incorrect. When there are a large number of firms, no one firm has much market power. This is the case of either perfect competition (if all firms sell identical products) or monopolistic competition (if all firms sell slightly differentiated products). Choice "d" is incorrect. If the purchasing industry is an important customer of the supplier, the purchasing industry (i.e. the buyer) will have some market power. This will diminish the ability of the supplier to influence or control the buyer.

QUESTION 3

Government price regulations in competitive markets that set maximum or ceiling prices below the equilibrium price will in the short run:

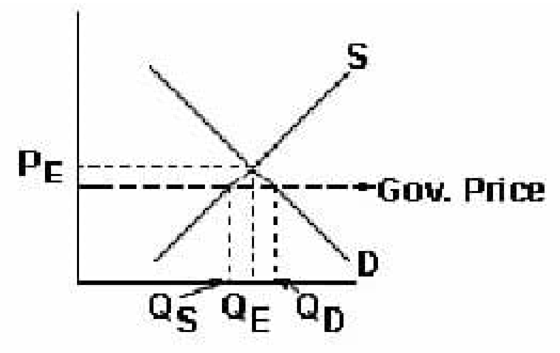
A. Cause demand to increase.

B. Cause supply to increase.

C. Create shortages of that product.

D. Produce a surplus of the product.

Correct Answer: C



Choice "c" is correct. Government price regulations in competitive markets that set maximum or ceiling

prices below the equilibrium price will create shortages of that product in the short run because quantity

supplied will be less than quantity demanded at that price.

Choice "a" is incorrect. Quantity demand will increase at the lower price.

Choice "b" is incorrect. Quantity supplied will decrease at the lower price.

Choice "d" is incorrect. A price set below the market\\'s equilibrium price causes shortages, not surpluses,

per the graph above.

QUESTION 4

Inflation can be caused by:

A. Increases in aggregate demand only.

B. Increases in aggregate supply only.

C. Decreases in aggregate demand and increases in aggregate supply.

D. Increases in aggregate demand and decreases in aggregate supply.

Correct Answer: D

Choice "d" is correct. Both an increase in aggregate demand and a decrease in aggregate supply can cause inflation. Choice "a" is incorrect. While an increase in aggregate demand can cause inflation, it is not the only cause of inflation. Choice "b" is incorrect. An increase in aggregate supply would lower the overall price level, not increase the overall price level. Choice "c" is incorrect. A decrease in aggregate demand would lower the overall price level, not increase the overall price level.

QUESTION 5

Which one of the following is not a characteristic of a negotiable certificate of deposit? Negotiable certificates of deposit:

A. Have a secondary market for investors.

B. Are regulated by the Federal Reserve System.

C. Are usually sold in denominations of a minimum of $100,000.

D. Have yields considerably greater than bankers\\' acceptances and commercial paper.

Correct Answer: D

Choice "d" is correct. Negotiable CDs generally carry interest rates slightly lower than bankers\\'

acceptances (which are drafts drawn on deposits at a bank) or commercial paper (which is unsecured debt

issued by credit worthy customers).

Choice "a" is incorrect. Negotiable CDs have a formal secondary market.

Choice "b" is incorrect. Negotiable CDs are a product of the banking industry, which is regulated by the

Federal Reserve Board.

Choice "c" is incorrect. Negotiable CDs are usually sold in denominations of a minimum of $100,000.