



Module 2 Exam - SOLUTIONS

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.:	See question 38	This is your test version (ABCD) and unique ID number (0 to 9999)
Date:	2	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	Jonathan Heyne
102	Tu 9-10A	Dan Githinji
103	Tu 10-11A	Diego Butrich
104	Tu 11A-12P	Andy Kang
105	Tu 12-1P	Diego Butrich
106	W 8-9A	Udit Nakhat
107	W 10-11A	Udit Nakhat
108	W 11A-12P	Victor Villalobos
109	W 12-1P	Victor Villalobos
110	W 1-2P	Deepak Nainani
111	Th 8-9A	Carol Macavilca Paredes/Robert Gutierrez
112	Th 9-10A	Christine Chen
113	Th 10-11A	Carol Macavilca Paredes/Robert Gutierrez
114	Th 11A-12P	Andy Kang
115	Th 12-1P	Hans Klinger
116	Th 1-2P	Hans Klinger
117	Tu 1-2P	Deepak Nainani
118	Tu 2-3P	Christine Chen
119	Th 2-3P	Dan Githinji

UGBA 10 – Principles of Business

MODULE 2 EXAM SOLUTIONS – Fall 2017 10/13/2017

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

- 2) What is the term for the physical and intellectual contributions of people while engaged in the production of goods and services?
 - A) Human resources
 - B) Working capital
 - C) Physical resources
 - D) Planned resources
 - E) Market resources

- 3) As common practice, an executive 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.

- 4) Which of the following refers to the financial statement detailing a firm's assets, liabilities, and owners' equity?
 - A) Income statement
 - B) Statement of cash flows
 - C) Balance sheet
 - D) Expense report

E) Annual budget

5) The Federal Reserve has followed a loose monetary policy by adding large amounts of money supply to the economy. What is the major risk of this policy?

- A) Inability to purchase bonds on the open market
- B) Inability to track the resulting increase in the money supply
- C) Excessive unemployment
- D) Excessive inflation

6) All of the following are advantages of deposit insurance (such as the FDIC) except...

- A) Prevents “run on the bank”
- B) Enhances confidence of savers, even in a financial crisis
- C) Imposes insurance costs and administrative requirements on banks
- D) Decreases the need for small savers to investigate bank strength before saving there

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 2014, 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

8) Luxan Cheese is a cheese shop. In January, Luxan finds some excellent cheese called Tallegio from Italy. Luxan buy \$2000 worth on credit, taking delivery in January and paying suppliers **after 30 days** (in February). In February they start to sell the cheese, and deliver 75% (three quarters) of the cheese to selected customers for a 100% markup in February. Luxan sells and delivers the remaining cheese to customers in **March**, at a 50% markup. Luxan’s customers pay cash after 30 days. What is the **Revenue for the three months** January, February and March?

	January	February	March
	Revenue	Revenue	Revenue
a)	-2000	1500	500
b)	0	2250	1000
c)	2000	1000	750
d)	0	3000	750

Contribution Margin

9) Adam'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 - what is the break even number of pizzas for Adam's pizza?

- a) 400 pizzas
- b) 267 pizzas
- c) 667 pizzas
- d) 500 pizzas

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

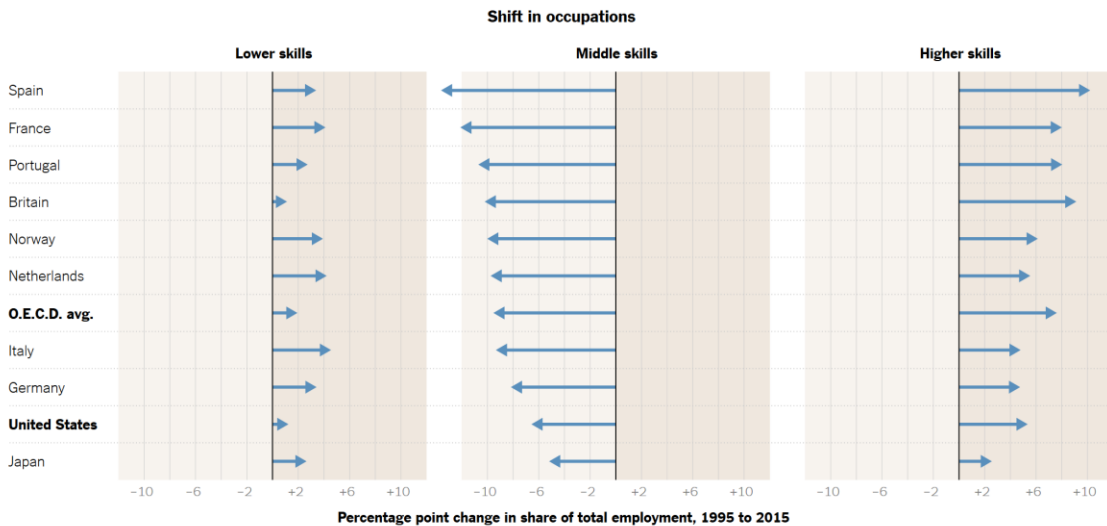
USE THE FOLLOWING INFORMATION TO ANSWER THE NEXT TWO QUESTIONS

Global Economy's Stubborn Reality: Plenty of Work, Not Enough Pay
By PETER S. GOODMAN and JONATHAN SOBLE
THE NEW YORK TIMES, OCT. 7, 2017

In the three-plus decades since Ola Karlsson began painting houses and offices for a living, he has seen oil wealth transform the Norwegian economy. He has participated in a construction boom that has refashioned Oslo, the capital. He has watched the rent climb at his apartment in the center of the city.

What he has not seen in many years is a pay raise, not even as Norway’s unemployment rate has remained below 5 percent, signaling that working hands are in short supply... In many major countries, including the United States, Britain and Japan, labor markets are exceedingly tight, with jobless rates a fraction of what they were during the crisis of recent years. Yet workers are still waiting for a benefit that traditionally accompanies lower unemployment: fatter paychecks.

Why wages are not rising faster amounts to a central economic puzzle... A hollowed-out labor market is partly to blame. A fundamental refashioning of the labor market has been underway for two decades. Jobs that require middle-range skills have been declining, while those involving skills at both the lower and higher end of the spectrum have been growing. This effectively suppresses wages for many: People in lower-paid, lower-skill jobs — retail workers, janitors and home health aides — have little bargaining power to demand higher wages. Middle-skilled workers — including clerks, call center operators and factory workers — are being replaced by computers, robots and lesser-paid hands in low-wage countries. Higher-skilled workers are capturing an outsized share of pay.



Source: Organization for Economic Cooperation and Development

- 11) Based on the above chart, all of the below must be true **except**
- A) All the countries are experiencing a relative decrease in the need for middle skilled employees
 - B) All the countries are experiencing a relative increase in the need for lower skilled employees
 - C) All the countries are experiencing a relative increase in the need for higher skilled employees
 - D) All the countries are experiencing a fall in total employment

12) What is one **likely consequence** if the authors' contentions about the labor market are correct?

- A) Due to an increase in the need for lower skilled workers, they will be able to get large raises
- B) Scarcity of middle skilled jobs will create a shortage of workers and a rise in wages
- C) If average pay rates to higher skilled workers do not fall, that group's share of total pay will rise
- D) The share of pay of higher skilled workers will decline

13) Which of the following is a consequence of the *divisibility* characteristic of money?

- A) Units of money do not expire after a certain time limit.
- B) Units of money can be accurately matched with the value of goods.
- C) Units of money are easily carried.
- D) Units of money have relatively stable value.
- E) Units of money of different nations are easily converted to other units of money.

14) Which of the following is considered by many to be the BEST single indicator of the U.S. equities market?

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

15) In which option A-D are the investments listed in order of **increasing riskiness**?

- A) Treasury bills, Mutual fund, Common stock
- B) Mutual fund, Common stock, Treasury bills
- C) Mutual fund, Treasury bills, Common stock
- A) Common stock, Mutual fund, Treasury bills

16) All of the following are **current assets** *except*?

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

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.

18) Piecrust Company has a net income of \$10 million. Piecrust's number of outstanding shares of stock is 5,000,000 shares. What is the company's earnings per share?

- A) \$0.50
- B) \$1.00
- C) \$1.50
- D) \$2.00
- E) \$2.50

19) Which of the following statements is true about treasury bonds as investments?

- A) Bonds are among the riskiest of all investments.
- B) Bonds are suitable for investors who seek security.
- C) Bonds will never become worth less than their purchase price.
- D) Treasury bonds are sensitive to individual company performance.

20) A person will receive \$144 in 2 years from a business investment, having initially invested \$100. The annual rate of return on the investment is closest to...

- a) 10%
- b) 12%
- c) 20%
- d) 44%

21) The study.net / HBS article “Financial Statement and Ratio Analysis” identifies three fundamental factors driving company performance. What does the paper identify as the starting point for evaluating companies?

- a) profit margin
- b) asset turnover
- c) financial leverage
- d) return on equity
- e) revenue growth

22) Which of the following **uses of cash** within the Capsim finance screen are related to **stockholders equity**?

- a) Pay interest
- b) Pay back long-term debt
- c) Issue long-term debt
- d) Pay dividends

23) When discussing the Dupont analysis as it pertains to TESLA – how would you characterize the 2016 performance of the company as discussed in lecture?

- | | Profit margin | Financial leverage |
|----|----------------------|---------------------------|
| a) | Low or negative | High |
| b) | High | Low or negative |
| c) | Low or negative | Low |
| d) | High | High |

24) Which of the following is figured by dividing the yearly dollar amount of dividend income by the investment's current market value?

- A) Bond value
- B) Current dividend yield
- C) Debenture
- D) Trading volume
- E) Earnings per share

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

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

26) Which of the following is considered by many to be the BEST indicator of the market for common stocks of blue-chip large-cap companies?

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

27) Unemployment in the United States at October 2017 as measured by the BLS (Bureau of Labor Statistics) is closest to....

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

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

Average stockholders' equity	\$45,000	Net income (current year)	\$ 4,500
Average total assets	\$90,000	Net sales (current year)	\$60,000
Current assets	\$10,000	Net sales (previous year)	\$40,000
Current liabilities	\$15,000		

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

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

29) What are the **total liabilities** of Draftmans?

- a) \$5,000
- b) \$15,000
- c) \$45,000
- d) \$80,000

30) Which of the following reasons is the primary motivator for a commercial bank to acquire new depositors?

- A) A new deposit account will make more funds available to pay the interest on other deposit accounts.
- B) A new deposit account will make more funds available to pay the bank's employees.
- C) A new deposit account will make more funds available to give out in loans.
- D) A new deposit account will make more funds available to give out in dividends to its investors.
- E) A new deposit account will make more funds available to facilitate brokerage transactions.

31) Assume that 10% reserve requirement has been imposed on banks. A client of Wells Fargo discovers a \$50 bill that has been lost for 80 years and therefore was not included in the money supply statistics. He deposits the \$50 in a checking account, which the bank relends to a new client (minus the reserve requirement) in cash. What is the effect on the M-1 money supply?

- a) There is no change in the M-1 Money supply
- b) The M-1 Money supply increases by \$50
- c) The M-1 Money supply increases by \$95
- d) The M-1 Money supply increases by \$100

32) The Federal Reserve has a **Dual Mandate** as discussed in lecture, 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) achieve price stability

33) All of the following are **advantages specific to money** except?

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

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

35) Michael Richman has \$1,500,000 total savings. As a minimum, how many individual bank companies should he spread the savings between, to make sure that it is all insured by the FDIC?

- A. 1
- B. 3
- C. 6
- D. 15

36. A company has positive contribution margin, but negative net 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

37. A

38. [Depends on version]