

Chapter 1 An Introduction to the Foundations of Financial Management

Learning Objective 1.1

- 1) Financial management deals with the maintenance and creation of economic value or wealth.

Answer: TRUE

Diff: 1 Page Ref: 31

Keywords: Financial Management

Learning Obj.: L.O. 1.1

AACSB: Reflective Thinking

- 2) Each financial decision made by a corporate manager can be evaluated by its direct impact on the corporation's stock price.

Answer: FALSE

Diff: 1 Page Ref: 32

Keywords: Goal of the Firm

Learning Obj.: L.O. 1.1

AACSB: Reflective Thinking

- 3) The fundamental goal of a business is to maximize the retained earnings available to the corporation's shareholders.

Answer: FALSE

Diff: 1 Page Ref: 31

Keywords: Goal of the Firm

Learning Obj.: L.O. 1.1

AACSB: Reflective Thinking

- 4) Shareholder wealth maximization means maximizing the price of the existing common stock.

Answer: TRUE

Diff: 1 Page Ref: 31

Keywords: Shareholder Wealth, Goal of the Firm

Learning Obj.: L.O. 1.1

AACSB: Reflective Thinking

- 5) It is important to evaluate a corporate manager's financial decision by measuring the effect the decision *should have* on the corporation's stock price if everything else were held constant.

Answer: TRUE

Diff: 2 Page Ref: 32

Keywords: Goal of the Firm, Maximize Shareholder Wealth

Learning Obj.: L.O. 1.1

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- 6) Corporate managers should accept investment projects that maximize profits in the short run because of the time value of money.

Answer: FALSE

Diff: 2 Page Ref: 32

Keywords: Goal of the Firm, Profits, Time Value of Money

Learning Obj.: L.O. 1.1

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