1. What is almost always listed as the primary goal of managers?
   **Maximize Shareholder’s Wealth**

2. Someone offers to sell you a product for a given price, briefly (2 sentences) describe how finance believes you should make on whether to purchase the item?
   **Take the Present Value of the expected future cash flows at a risk-adjusted discount rate. If the Present Value exceeds the Price then buy.**

3) Which of the following forms of ownership are purchased in the money markets?
   C) certificates of deposits

4) Which of the following statements is most correct?
   a. One drawback of forming a corporation is that it subjects the firm to additional regulations.

5) Which of the following statements best describe the difference between finance and accounting?
   B) Accounting generally has an historical outlook, while finance considers the future.

6) In manager-shareholder conflicts, a manager will usually prefer moral hazards to other types of asymmetric information agency problems.
   a. True

7. Why is your answer to the previous question correct?
   **Moral Hazards are unexpected agency costs. It is the one type of agency problem where the principal rather than the agent bears the agency costs.**

9) Name four basic stockholder rights.
   1. voting/control
   2. cash dividends
   3. liquidating dividends
   4. Preemptive right to purchase new shares equal to current holdings.
   Also, see Answer C to question 12.

9) The set of contract model of the firm is a refinement of the capital signaling model of the firm.
   b. False

10) If a company uses accrual accounting, it must have the information from (also, necessary to create) two balance sheets in order to produce one income statement.
    a. True

11) Which of the following statements describe money market securities?
   A) Money market securities are short-term claims with an original maturity that is generally one year or less.

12) Which of the following statements is false?
   C) Preferred stock is the residual interest in the firm and gives the owner dividend rights, voting rights, liquidation rights, and preemptive rights.

13) Deciding to participate in a zero-sum game where you have no expertise is equivalent to accepting a positive net present value project.
    b. False

14) Depreciation increases an asset’s book value each year.
    b. False

15) A company offers to give you either their accounts payables or their accounts receivables. Which do you prefer to own, and why?
I prefer Accounts Receivable as this means I collect money in the future. A.P. means I must pay money in the future.

16) List the four required financial statements?

17) If a bank uses monthly compounding for savings accounts, the nominal rate will be greater than the effective annual rate.
   b. False

18) Briefly describe the primary differences between distinguishes accrued expenses from prepaid expenses?
   Accrued means expense was incurred in the past and will be paid in the future. Prepaid means the expense will be incurred in the future, for which you have already paid.

19. ESSAY QUESTION (15 POINTS)
Using at least 4 Principles of Finance, comment on the below story that appeared recently. Be verbose. At a minimum, I expect you to completely fill the remainder of this page. Use the back of pages, if you need more room.

Oprah gives away 276 new Pontiacs
Talk show host opens 19th season by giving all her audience members a brand-new Pontiac G-6.

NEW YORK (CNN/Money) - No wonder she's the reigning queen of daytime talk. Oprah Winfrey, one of the world's richest entertainers, surprised her fans Monday by giving each of her 276 audience members a new car to celebrate the premiere of her show's 19th season. The billionaire talk show host told the audience that everybody will get a new Pontiac G-6 midsize 2005 sports sedan. Winfrey screamed and jumped up and down on the stage, shouting: "Everybody gets a car! Everybody gets a car!"

She then led the audience into the parking lot to check out their new cars. Winfrey told the audience they will get to choose their own color, and the car will include special features such as XM satellite radio, OnStar Safety and heated leather seats. Winfrey said the audience members were specially chosen, because family and friends had told the show's producers they needed new wheels.

The cars, priced at $28,400 fully loaded, were donated by Pontiac, according to the carmaker. Pontiac, a division of General Motors (GM: Research, Estimates), has also agreed to pay sales tax for each member of the lucky audience. "The Oprah Winfrey Show" is produced in Chicago by Harpo Productions Inc. and syndicated to 212 domestic markets and 109 countries by King World. Harpo is Oprah spelled backward.

Many good answers, some of the best were:
1. Self-interested behavior by Oprah (ratings), Pontiac (free publicity on Oprah’s show plus from news stories).
2. Risk-return tradeoff, usually related to lower risk traditional advertising versus higher risky Oprah giveaway.
   Example, 2 minutes of Superbowl advertising= $5.5 million, Oprah giveaway=$5.5 million and hit car’s target market of 18-49 females.
3. Comparative advantage/Expertise builds value, to explain why cars were given away on Oprah versus Montel or some other talk show.
4. Diversification. Most advertising methods are highly correlated with each other; this method of advertising probably had low correlation with other advertising forms.
5. 1st mover, this gets lots of publicity, future similar stunts would get less.
1. (3 points) You want to make an investment that will yield a lump sum of $1,000,000 in 47 years. You will invest at a nominal rate of 14.9%. How much do you need to invest today to reach the above future value? Calculate your answer to the nearest $.01.

$1462.04

2. (3 points) Assume that you will receive $2,000 a year in Years 1 through 5, $0 a year in Years 6 through 8, and $12,000 in Year 9, with all cash flows to be received at the end of the year. If you require a 10.4 percent rate of return, what is the present value of these cash flows?

$12430.34

3. (3 points) Carter Corporation has some money to invest, and its treasurer is choosing between City of Chicago municipal bonds and IBM corporate bonds. Both bonds have the same maturity, and they are equally risky and liquid. If IBM bonds yield 5.8 percent, and Carter's marginal income tax rate is 35 percent, what yield on the Chicago municipal bonds would make Carter's treasurer indifferent between the two?

5.8% (1-35%) = 3.77%

4. (3 points) What is the future value of a 7-year annuity due with annual payments of $2,378, assuming a 6.4% nominal interest rate?

$21,498.78

5. (20 points) Write out the Income Statement and Balance Sheet in the correct format and fill in the missing numbers. Use the back of the page, if needed.

Net Receivables 5119
Other Current Assets 748
Cash And Cash Equivalents 10,301
Long Term Investments 45
Cost of Goods Sold 20,730
Bank Loans (Long Term) 230
Depreciation 65
Operating Profit -11,362
Land (Undeveloped) 204
Redeemable Preferred Stock 74
Income Tax Expense 3
Total Revenue 26,725
Retained Earnings -21249 or -21075 accepted
Capital Leases (Long Term Liability) 765
Other Long Term Assets 4,520
Total Assets 24,342
Labor Expense 975
Accrued Labor Expense 920
Interest Expense 923
Income Before Tax -12285

Inventory 3,000
Net Income -12,288
Total Current Assets 19,168
Total Liab. and Equity 24,342
Other Current Liabilities 1,006
Gross Profit 5995
Selling Expense 760
Net Plant and Equipment 505
Total Liabilities 6,692
Preferred Stock 150
Capital Surplus 38,624
Common Stock 51
Long Term Bonds (Liability) 712
Research & Development 1,055
Total Long Term Assets 5,174
General and Administrative 14,502
Accounts Payable 2,010
Other Long Term Liabilities 1,049
Total Current Liabilities 3,936