1. c. Shareholder Wealth Maximization.

2. What is a bond?
Debt instrument, has limited life, usually makes fixed payments to investors during term of bond,
has priority over equity in bankruptcy.

3. b. Exposure to taxation of corporate earnings and stockholder dividend income.

4. b. False

5. A, note this question is from Chapter 3

6. equal to. less than, note this question is from Chapter 3

7. List the four required financial statements required for external reporting purposes for publicly traded companies in the United States.

8. Not covered in this edition of the textbook

9. See the list in the textbook.

10. d. Purchase additional inventory on credit (accounts payable).

11. (4 points, circle the correct answer) Interpret the below ratios by performing a trend analysis.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>1999</th>
<th>2000</th>
<th>Industry</th>
<th>This ratio is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>3.1</td>
<td>3.3</td>
<td>2.7</td>
<td>improving</td>
</tr>
<tr>
<td>Fixed Charge Coverage</td>
<td>4.0</td>
<td>3.0</td>
<td>4.5</td>
<td>getting worse</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>3.7%</td>
<td>9.2%</td>
<td>6.1%</td>
<td>improving</td>
</tr>
<tr>
<td>P/E</td>
<td>17.2</td>
<td>21.3</td>
<td>25.0</td>
<td>improving</td>
</tr>
</tbody>
</table>

12. e. Short-term debt securities.

13. C, note this question is from Chapter 3

14. a. The SML would shift up and the slope would increase, note this question is from Chapter 3

15. a. A Treasury bond paying 6.2% interest = ___4.03___% after-tax yield.
   b. A Municipal bond paying 7.2% interest = ___7.2___% after-tax yield.
   c. A Corporate bond paying 8.2% interest = ___5.33___% after-tax yield.

16. 3000+4000-5000-600=1400, hint, check the format of the Statement of Cash Flows

17. (4 points) What is the nominal risk-free rate, \( k_{RF} \) ? 3+8=11
Assume a liquid market in long-term treasury bonds exists, what is the interest rate on a 20-year Treasury securities, or T-bonds? 3+8+1=12
18.
Cash $51
Inventory $128.5 Use inventory turnover to solve for this
Accounts Receivable $54.0
Prepaid Rent $68.0
Total Current Assets $301.5
Gross Fixed Assets $1,830.0
Accumulated Depreciation $945
Net Fixed Assets $885
Other Long Term Investments $99.5
Total Long Term Assets $984.5
Total Assets $1,286
Accounts Payable $158
Accrued Wages $16
Current Portion of Long Term Debt $125
Other Payables $36
Total Current Liabilities $335
Long Term Debt $300
Common Stock $928
Retained Earnings -$277
Total Liabilities and Owner’s Equity $1,286

Sales $1,542
Cost of Goods Sold $713
Gross Profit $829
Labor Expense $137
Administrative Expense $38
Rent Expense $236
Utilities Expense $139
Depreciation $40
Operating Income $239
Interest Expense $114.48
Income Before Taxes $124.52
Income Taxes $46.40
Net Income $78.12

Other Information:
Current Ratio = .90
Inventory Turnover Ratio (Sales/Inventory) = 12.0
Return on Equity = 12.0%

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2. From Chapter 3
2. From Chapter 3

3. a. What is the firm’s level of current liabilities (in millions)? 1.25 = 4.5/CL \(\Rightarrow\) CL = 3.6 million
b. What is the firm’s level of inventories (in millions)? .75 = (4.5 – inv)/3.6 \(\Rightarrow\) inv = 1.8