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Question 1

Question Type: **MultipleChoice**

The term "escalation of commitment" refers to

Options:

A) The process of continuing to fund old projects because of inadequate information or time to formally anal we the costs and benefits associated with continued investment.

B) The decision maker increasing the resources to a new course of action if the employee can recommend alternatives such that the decision the new course of action as his/her own initiative.

C) Committing to projects that have been shown to be successful and limiting the additional commitment of resources to projects that have been unsuccessful.

D) The decision maker increasing the resources to the previous course of action in an effort to demonstrate that the previous course of action was appropriate.

Answer:

D

Explanation:

Consistency may be dysfunctional because it may result in inflexibility. The desire to avoid the inner conflict resulting from inconsistency may have adverse effects on decision making. For example, when a decision maker feels responsible for the failure of a course of action, (s) he may want to prove that the original decision was sound despite increasing evidence to the contrary. Thus, his/her commitment to a failed policy may escalate, and additional resources may be squandered.

Question 2

Question Type: MultipleChoice

The term 'underwriting spread" refers to the

Options:

A) Commission percentage an investment banker receives for underwriting a security issue.

B) Discount investment bankers receive on securities they purchase from the issuing company.

C) Difference between the price the investment banker pays for a new security issue and the price at which the securities are resold.

D) Commission a broker receives for either buying or selling a security on behalf of an investor.

Answer:

C

Explanation:

An investment banker performs an underwriting or insurance function when it purchases an issue of securities and then resells them. The risk of price fluctuations during the distribution period is borne entirely by the investment banker. Investment banking is also an efficient vehicle for marketing the securities because investment bankers are specialists in such activities The profit earned is the underwriting spread, or the difference between the purchase and resale prices of the securities (effectively, the wholesale and retail prices).

Question 3

Question Type: MultipleChoice

Oradell Company sells its single product at a price of $60 per unit and incurs the following variable costs per unit of product

Oradell's annual fixed costs are $880.000, and Oradell is subject to a 30% income tax rate. The number of units of product that Oradell Company must sell annual' to break even is?

Options:

A) 22,000 units

B) 44,000 units.

C) 35.200 units.

D) 30,800 units.

Answer:

B

Explanation:

The breakeven point in units equals fixed costs divided by the contribution margin per unit at a selling price of $60 per unit and with variable costs of $40 per unit, the unit contribution margin is $20. Thus, the breakeven point is 44,000 units ($880,000 $20).

Question 4

Question Type: MultipleChoice

The Dickins Corporation is considering the acquisition of a new machine at a cost of $180,000. Transporting the machine to Dickenss' plant will cost $12,000. Installing the machine will cost an additional $18,000. It has a 10-year life and is expected to have a salvage value of $10,000. Further more, the machine is expected to produce 4,000 units per year with a selling price of $500 and combined direct materials and direct labor costs of $450 per unit. Eederal tax regulations permit machines of this type to be depreciated using the straight-line method over 5 years with no estimated salvage value. Dickins has a marginal tax rate of 40%. What is the approximate payback period on Dickins' new machine?

Options:

A) 1.05years.

B) 1.S4years.

C) 1.33years.

D) 2.22 years.

Answer:

B

Explanation:

When annual cash inflows are uniform, the payback period is calculated by dividing the initial investment ($210,000) by the annual net cash inflows ($136,800). Dividing $210,000 by $136,800 produces a payback period of 1.54 years.

Question 5

Question Type: MultipleChoice

The Dickins Corporation is considering the acquisition of a new machine at a cost of $180,000. Transporting the machine to Dickenss' plant will cost $12,000. Installing the machine will cost an additional $18,000. It has a 10-year life and is expected to have a salvage value of $10,000. Further more, the machine is expected to produce 4,000 units per year with a selling price of $500 and combined direct materials and direct labor costs of $450 per unit. Eederal tax regulations permit machines of this type to be depreciated using the straight-line method over 5 years with no estimated salvage value. Dickins has a marginal tax rate of 40%. What is the approximate payback period on Dickins' new machine?

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Question 6

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D) The decision maker increasing the resources to the previous course of action in an effort to demonstrate that the previous course of action was appropriate.

Answer:

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Explanation:

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Question 7

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Question 8

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Answer:

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Explanation:

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