

İKT236 Managerial Economics  
Midterm Exam

Dr. Onur Ozsoy

**Multiple Choice**

*Identify the letter of the choice that best completes the statement or answers the question.*

- \_\_\_\_\_ 1. The form of economics most relevant to managerial decision-making within the firm is:
- macroeconomics
  - welfare economics
  - free-enterprise economics
  - microeconomics
  - none of the above
- \_\_\_\_\_ 2. In the competitive strategy framework developed by Porter, the five competitive forces that affect stock prices include:
- threat of new entrants
  - rivalry among current competitors
  - bargaining power of buyers
  - a and b only
  - a, b, and c
- \_\_\_\_\_ 3. If one defines incremental cost as the change in total cost resulting from a decision, and incremental revenue as the change in total revenue resulting from a decision, any business decision is profitable if:
- it increases revenue more than costs or reduces costs more than revenue
  - it decreases some costs more than it increases others (assuming revenues remain constant)
  - it increases some revenues more than it decreases others (assuming costs remain constant)
  - all of the above
  - b and c only
- \_\_\_\_\_ 4. The long-run survival of the firm:
- is a normative goal
  - conflicts with the desired interests of management
  - is more oriented to the minimization of risk than the maximization of profits
  - does not involve social responsibility
  - none of the above
- \_\_\_\_\_ 5. Which of the following represents reasons why the efficiency objective in public agencies may not be achieved?
- lack of an unambiguous measure of performance
  - management's preoccupation with guaranteeing the long-run survival of the organization
  - the objective of maximizing the size of the organization
  - b and c
  - a, b, and c
- \_\_\_\_\_ 6. In the shareholder wealth maximization model, the value of a firm's stock is equal to the present value of all expected future \_\_\_\_\_ discounted at the stockholders' required rate of return.
- profits (cash flows)
  - revenues
  - outlays
  - costs
  - investments
- \_\_\_\_\_ 7. Which of the following statements concerning the shareholder wealth maximization model is (are) true?

- a. The timing of future profits is explicitly considered.
  - b. The model provides a conceptual basis for evaluating differential levels of risk.
  - c. The model is only valid for dividend-paying firms.
  - d. a and b
  - e. a, b, and c
- \_\_\_\_\_ 8. In the shareholder wealth maximization model, the discount rate ( $k_e$ ) which investors use to value the stream of returns generated by the firm is determined by:
- a. conditions in the financial markets
  - b. the perceived risk of the firm
  - c. the level of expected inflation
  - d. a, b, and c
  - e. none of the above
- \_\_\_\_\_ 9. According to the profit-maximization goal, the firm should attempt to maximize short-run profits since there is too much uncertainty associated with long-run profits.
- a. true
  - b. false
- \_\_\_\_\_ 10. According to the innovation theory of profit, above-normal profits are necessary to compensate the owners of the firm for the risk they assume when making their investments.
- a. true
  - b. false
- \_\_\_\_\_ 11. According to the managerial efficiency theory of profit, above-normal profits can arise because of high-quality managerial skills.
- a. true
  - b. false
- \_\_\_\_\_ 12. Which of the following (if any) is not a factor affecting the profit performance of firms:
- a. differential risk
  - b. innovation
  - c. managerial skills
  - d. existence of monopoly power
  - e. all of the above are factors
- \_\_\_\_\_ 13. Agency problems and costs are incurred whenever the owners of a firm delegate decision-making authority to management.
- a. true
  - b. false
- \_\_\_\_\_ 14. Economic profit is defined as the difference between revenue and \_\_\_\_\_.
- a. explicit cost
  - b. total economic cost
  - c. implicit cost
  - d. shareholder wealth
  - e. none of the above
- \_\_\_\_\_ 15. Income tax payments are an example of \_\_\_\_\_.
- a. implicit costs
  - b. explicit costs
  - c. normal return on investment
  - d. shareholder wealth
  - e. none of the above
- \_\_\_\_\_ 16. Which of the following factors does not have a direct impact on the required returns of investors in the stock of a company?
- a. interest rate levels

- b. the capital structure of the firm
- c. the marketing channels selected by the firm
- d. anticipated levels of inflation
- e. the investments made by the firm

- \_\_\_\_\_ 17. The factors most directly responsible for the turnaround in the performance of O.M. Scott & Sons after 1986 include all of the following except
- a. the discipline of a highly leveraged capital structure
  - b. a closer alignment of manager and owner interests
  - c. more efficient use of resources
  - d. an increase in interest rates that permitted Scott to earn greater returns on its liquid assets
- \_\_\_\_\_ 18. With the passage of the decade of restructuring (the 1980s), the major disciplining force on managers of U.S. firms is likely to be
- a. banker oversight
  - b. international competition
  - c. shareholder activism
  - d. institutional investor activism
  - e. a new round of leveraged buyouts
- \_\_\_\_\_ 19. Various executive compensation plans have been employed to motivate managers to make decisions that maximize shareholder wealth. These include:
- a. cash bonuses based on length of service with the firm
  - b. payment of greenmail
  - c. requiring officers to own stock in the company
  - d. large corporate staffs
  - e. a, b, and c only
- \_\_\_\_\_ 20. The common factors that give rise to all principal-agent problems include the
- a. unobservability of some manager-agent action
  - b. presence of random disturbances in team production
  - c. the greater number of agents relative to the number of principals
  - d. a and b only
  - e. none of the above

**onur**

**Answer Section**

**MULTIPLE CHOICE**

1. D
2. E
3. D
4. C
5. E
6. A
7. D
8. D
9. B
10. B
11. A
12. E
13. A
14. B
15. B
16. C
17. D
18. B
19. C
20. D