Financial Environment of Business CFIN 2 Review

FILL IN THE BLANK *(note: some terms will not be used)*

capital markets	financial return	money markets
choice	financial risk	partnership
commodity markets	foreign currency	resources
corporation	foreign exchange market	scarcity
demand	global business	sole proprietorship
economics	limited liability company (LLC)	stock market
exchange rate	market economy	supply
financial market	market price	term

1. _____ is the uncertainty that an expected profit will not be achieved.
2. An organized exchange of the ownership shares of public corporations is called a(n) _____ .
3. A(n) _____ is a company that transcends national boundaries and is not committed to a single home country
4. The science of decision making about the allocation of scarce resources is called _____ .
5. A(n) _____ is the organized process for the exchange of capital and credit.
6. A(n) _____ is a business owned and managed by two or more people under the conditions of a legal written agreement.
7. _____ refers to where one currency is exchanged for another.
8. Currency of another country is called _____ .
9. Length of time invested money is controlled by others is called the _____ .
10. _____ are where you can trade raw materials and other basic production resources.

THINK CRITICALLY

11. Identify five ways that the U.S. economy affects the lives of you, your family, and your community. They can be both positive and negative.

12. Many people start their day with a bowl of breakfast cereal. Consider all of the resources needed to produce a box of cereal. Make a list of the resources you think would be needed and classify them as natural resources, capital resources, or human resources.

13. Why do most people start new businesses as a sole proprietorship when a corporation offers greater protection for the assets invested?

14. Why is there a need for secondary offerings for stock and bonds as well as a primary offering? Even though the company issuing the stocks and bonds does not benefit directly from secondary offering sales, how can those sales have a positive effect on that company?

15. The exchange rates for foreign currencies are of great concern to businesses involved in foreign trade. In what ways do those exchange rates affect individual consumers?

EXCEL PROBLEMS

Use Excel to solve the problems below and email the spreadsheet as an attachment.
MAKE SURE TO USE FORMULAS IN YOUR WORK!
(don't just type the answers)

16. An electronics company can use its resources to produce either digital cameras or cellular phones. It costs $87 to produce each camera and $58 to produce each phone. In the current market it will be able to sell 8,500 cameras at $127 each or 12,750 phones at $92 each. What will be the difference in the company's profit for each of the choices?

17. In a recent year the federal corporate tax rate was 15 percent on income up to $50,000 and 25 percent for income from $50,000-$75,000. In the same year, the individual income tax rate was 0 percent for income up to $7,500, 15 percent for income from $7,500-$30,500 and 25 percent for income from $30,500-$74,000. What would be the difference in income tax paid by a person who organized a small business as a corporation versus a sole proprietorship with a business income of $69,800?

18. Allan has a grain farm in Iowa. His cost for raising corn is $2.28 per bushel. He sold his corn crop at three different times on the commodity market. In June after his corn was planted he sold half of his anticipated 300,000 bushel crop on the futures market for $2.32 per bushel. In November he sold 90,000 bushel at $2.30 per bushel on the spot market . The next April, he sold the remaining 60,000 bushel for $2.25. What were Allan's income, costs, and profit or loss from each sale? What were his income, costs, and profit realized from the entire crop?

19. A U.S. manufacturer placed an order with a German company for some specialized production equipment. The final cost of the order was $78,500 EUR. From the time negotiations began until the order was completed and payment needed to be made, the currency exchange rate between the U.S. dollar and the Euro has gone from $1.252 USD/EUR to $1.273. How much more did the U.S. company have to pay based on the rate change? What was the percentage of price increase in U.S. dollars?