1. A firm has fixed operating costs of $10,000, the sale price per unit of its product is $25, and its variable cost per unit is $15. The firm’s operating breakeven point in units is ________ and its breakeven point in dollars is ________.
(A) 250; $6,250  (B) 400; $10,000  (C) 667; $16,675  (D) 1,000; $25,000

2. With the existence of fixed operating costs, a decrease in sales will result in ________ in EBIT.
(A) a proportional increase  (B) an equal increase  (C) a more than proportional decrease  (D) a less than proportional decrease

3. Management has just discovered an excellent investment for which it needs additional funding. Relative to the discussion on asymmetric information the firm should
(A) finance with new common stock if management believes the firm is undervalued
(B) finance with debt if management believes the firm is undervalued
(C) finance with debt if management believes the firm is overvalued
(D) finance with preferred stock if the firm is at value.

4. As debt is substituted for equity in the capital structure and the debt ratio increases, all of the following statements about the component costs of capital are true EXCEPT
(A) the cost of equity continually increases
(B) the cost of debt continually increases
(C) the overall cost of capital first decline, reaches a minimum, and then rises again
(D) the overall cost of capital continually increases.

5. The purpose of the restrictive debt covenant that requires that subsequent borrowing be subordinated to the original loan is to
(A) ensure that certain key employees are maintained
(B) limit the amount of fixed-payment obligations
(C) ensure a cash shortage does not cause an inability to meet current obligations
(D) protect the lender by maintaining its position in the priority of claims in the event of liquidation.