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WGU C214 OA FINANCIAL MANAGEMENT

EXAM

Questions & Verified Answers

1. The stock price of a company increases and the market is deemed efficient.

What assumption can be made?

- A. A new, patented, product was introduced to the market.
- B. New machinery was purchased with a useful life of 20 years.
- C. Management is optimizing its resources and operating efficiently.
- D. Management hired new employees and invested in a training program.

Answer A

2. Which statement is true about how the global market affects the US?

- A. Bad options trade executed by a foreign subsidiary of a Wall Street bank will affect layoffs overseas.
- B. A Bad derivatives trade executed by a foreign subsidiary of a Wall Street bank will affect layoffs overseas.
- C. American investors and fund managers make decisions based on financial reporting standards developed and financial statements audited overseas.
- D. Foreign investors and fund managers make decision based on financial reporting standards developed and financial statements overseas

Answer Foreign investors and fund managers make decision based on financial reporting standards developed and financial statements overseas.

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WGU Financial Management VBC1 Sample Questions (Q31-Q36):

NEW QUESTION # 31

In the capital asset pricing model (CAPM), what does a beta (β) greater than 1 signify for a portfolio?

- A. The portfolio has less risk than the market.
- B. The portfolio will always outperform the market.
- C. The portfolio has more risk than the market.
- D. The portfolio is expected to move in the opposite direction of the market.

Answer: C

Explanation:

Within the CAPM framework, beta quantifies the degree of systematic risk relative to the market portfolio, which by definition has a beta of 1. A portfolio with a beta greater than 1 carries more systematic risk than the market, meaning its returns are expected to be more sensitive to market movements. This higher sensitivity increases both upside potential and downside exposure. According to CAPM, investors require a higher expected return for bearing this additional risk. Importantly, a higher beta does not guarantee superior performance; it simply reflects greater volatility relative to the market. Option B accurately captures this risk-based interpretation.

NEW QUESTION # 32

What is a function of the Financial Industry Regulatory Authority (FINRA)?

- A. Insuring bank deposits
- B. Issuing currency
- C. Regulating brokerage firms
- D. Managing federal monetary policy

Answer: C

Explanation:

FINRA's core function is regulating brokerage firms and registered representatives to ensure fair and honest markets. It establishes and enforces rules governing trading practices, licensing, disclosure, and ethical conduct. FINRA also conducts examinations, investigates misconduct, and administers arbitration and mediation between investors and brokers. Unlike the Federal Reserve or FDIC, FINRA does not manage monetary policy or insure deposits. Financial management and regulatory texts consistently describe FINRA as a critical component of U.S. securities market oversight. Option D correctly identifies its primary role.

NEW QUESTION # 33

A recent news article reported that a popular tech start-up has not yet reached profitability or experienced a period of positive cash flows from operations. Instead, the company has been focused primarily on capturing market share and attracting new customers. What does the continued negative cash flow from operations (CFO) signal about this firm?

- A. It indicates the firm is effectively managing its assets and using them to generate earnings for the firm.
- B. It implies the firm is investing minimally in the future growth of the company and its operations.
- C. It shows the firm is generating too much cash from operations and will not be able to continue to do so.
- D. It suggests the firm is burning cash in its operations and may eventually run out of funding sources.

Answer: D

Explanation:

Cash flow from operations reflects the cash generated (or consumed) by a firm's core business activities. When CFO is consistently negative, it indicates that operating expenses and working capital needs exceed cash inflows from sales. For start-ups, this is common during early growth phases, as firms spend heavily on marketing, technology, and customer acquisition to build scale and future revenue potential. However, from a financial management perspective, negative CFO also signals cash burn. Unless offset by

financing inflows (equity or debt) or expected future positive cash flows, continued operating losses can threaten liquidity and solvency. Analysts closely monitor burn rate, funding runway, and the firm's ability to transition to sustainable operations. Option C accurately captures this risk-focused interpretation, whereas the other options either mischaracterize negative CFO or contradict its fundamental meaning.

NEW QUESTION # 34

According to the capital asset pricing model (CAPM), how is a stock with a beta of 1.0 expected to perform relative to the market?

- A. It will perform in line with the market.
- B. It will outperform the market.
- C. It will perform opposite of the market.
- D. It will underperform the market.

Answer: A

Explanation:

A beta of 1.0 indicates that a stock has the same level of systematic risk as the market portfolio. Under CAPM assumptions, such a stock is expected to move proportionally with the market—rising and falling by similar percentages in response to market-wide changes. Consequently, its expected return equals the market return. This does not imply identical realized performance in every period, but rather equivalence in expected risk-adjusted performance over time. Financial managers use this benchmark to classify stocks as aggressive (beta > 1), defensive (beta < 1), or market-matching (beta = 1). Option B correctly reflects this CAPM interpretation.

NEW QUESTION # 35

What does a high inventory turnover ratio indicate about a company's inventory management?

- A. The company has excess inventory.
- B. The company's inventory is obsolete.
- C. The company has efficient inventory management.
- D. The company has too little inventory.

Answer: C

Explanation:

Inventory turnover measures how many times a company sells and replaces its inventory during a given period. A high inventory turnover ratio generally indicates that inventory is being sold quickly and efficiently, minimizing holding costs such as storage, insurance, and obsolescence. From a financial management perspective, efficient inventory management improves cash flow by reducing capital tied up in unsold goods and shortens the cash conversion cycle. While an extremely high turnover could signal stockouts or lost sales, financial management texts typically interpret higher turnover—relative to industry norms—as a positive indicator of operational efficiency. Option B correctly reflects this standard interpretation.

NEW QUESTION # 36

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