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QUESTION 1

According to Philip Kilter, which class of customer produces low profit but is desirable?

- A. Iron.
- B. Gold.
- C. Lead.
- D. Platinum.

Correct Answer: A

Customer profitability lily analysis determines all revenues and all costs assignable to specific customers. Customers in the iron category produce low profits but are desirable. The firm's marketing investment in these customers is lower than for the platinum and gold categories. However, the firm's objective should be to move them into the gold category.

QUESTION 2

The evaluation technique of linear programming involves all of the following except

- A. Linear equations.
- B. Scarce resources.
- C. Accurate results.
- D. Objective function.

Correct Answer: C

Linear programming is a tool for allocating scarce resources in the presence of resource constraints. The problem must be described by a system of linear equations. An objective function (usually cost or revenue) is maximized or minimized subject to constraint equations. The simultaneous solution to the system of equations maximizes profit (or minimizes cost). This description is seldom strictly accurate but provides useful approximations.

QUESTION 3

Capital Invest, Inc. uses a 12% hurdle rate for all capital expenditures and has done the following analysis for four projects for the upcoming year:

	<u>Project 1</u>	<u>Project 2</u>	<u>Project 3</u>
Initial capital outlay	\$200,000	\$298,000	\$248,000
Annual net cash inflows			
Year 1	65,000	100,000	80,000
Year 2	70,000	135,000	95,000
Year 3	80,000	90,000	90,000
Year 4	40,000	65,000	80,000
Net present value	(3,798)	4,276	14,064
Profitability index	98%	101%	106%
Internal rate of return	11%	13%	14%

Which project(s) should Capital Invest, Inc. undertake during the upcoming year assuming it has no budget restrictions?

- A. All of the projects.
- B. Projects 1, 2, and 3.
- C. Projects 2, 3, and 4.
- D. Projects 1, 3, and 4.

Correct Answer: C

A company using the NPV method should undertake all projects with a positive NPV, unless some of those projects are mutually exclusive. Given that Projects 2, 3, and 4 have positive NPVs, they should be undertaken. Project 1 has a negative NPV.

QUESTION 4

If two projects are completely and positively linearly dependent (or positively related), the measure of correlation between them is

- A. 0
- B. + 0.5
- C. +1
- D. 1

Correct Answer: C

The measure of correlation when two projects are linearly dependent in a positive way will be +1.0.

QUESTION 5

An inventory management technique designed to minimize inventory investment by having materials arrive at the time they are needed for use is known as

- A. The economic order quantity model (EOQ).
- B. Materials requirements planning (MRP).
- C. First-in first-out (FIFO).
- D. Just-in-time (JIT).

Correct Answer: D

A just-in-time (JIT) inventory management system limits the output of each manufacturing operation to the demand of the next operation. Shipment of raw materials from vendors are scheduled to arrive "just in time" to be used in the production process. Inventory storage is considered a nonvalue-adding activity, and raw materials on hand are thus kept to a minimum.

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