# UNIVERSITY OF CENTRAL FLORIDA (UCF) FIN3403 BUSINESS FINANCE PRACTICE EXAM 3 (SAMPLE)

## STUDY GUIDE

## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

### 1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

### 2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

### 3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

### 4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

### 5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

### 6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

# Questions

**1. To calculate the NPV, which of the following do you need to subtract from the present value of cash flows?**

A. Future cash flows

B. Initial outlay

C. Residual value

D. Discount rate

**2. What does the market risk premium represent?**

A. The return expected from risk-free investments.

B. The excess return from investing in the market over the risk-free rate.

C. The total return on government securities.

D. The average market return over a set time period.

**3. What is the yield percentage in relation to stock prices?**

A. Percentage of dividends paid relative to the stock price

B. Percentage of total sales earnings

C. Percentage of stock price increase

D. Percentage of company profits

**4. What is the definition of systematic risk?**

A. The risk that affects a specific investment

B. The risk that arises from market-wide factors

C. The risk associated with fixed-income securities

D. The risk of a company failing

**5. What would be the present value of XYZ company stock if it is expected to pay a $5.50 dividend and have a future price of $120 with a required rate of return of 15%?**

A. 109.13

B. 115.00

C. 120.00

D. 100.00

**6. In the project involving the new machine, what is the initial outlay for Heritage Corporation after considering tax impacts?**

A. -$26,700

B. -$20,000

C. -$45,000

D. -$30,000

**7. When faced with size disparity, which project selection criterion is most effective?**

A. Choose the project with the lowest IRR

B. Select based on the highest profitability index (PI)

C. Opt for the one with the highest net present value (NPV)

D. Prioritize projects with shorter lifespans

**8. What is the significance of a project's cash flow pattern in evaluating time disparity?**

A. It determines the required return for the project

B. It affects the calculation of future cash flows

C. It influences the timing and value of cash flows impacting NPV

D. It allows for easier project comparison

**9. Which type of equity is generally considered more expensive?**

A. Debt

B. Preferred equity

C. Common equity

D. Retained earnings

**10. What is 'credit risk'?**

A. Risk of market price fluctuations

B. Risk of loss from borrower default

C. Risk associated with investment diversification

D. Risk tied to economic downturns

# Answers

1. B
2. B
3. A
4. B
5. A
6. A
7. C
8. C
9. C
10. B

# Explanations

**1. To calculate the NPV, which of the following do you need to subtract from the present value of cash flows?**

A. Future cash flows

B. Initial outlay

C. Residual value

D. Discount rate

*To calculate the Net Present Value (NPV), you need to subtract the initial outlay from the present value of future cash flows. The NPV formula reflects the essence of investment evaluation: it compares the present value of the cash inflows generated by an investment to the costs incurred to make that investment. When assessing a project using NPV, the initial outlay represents the total investment cost required upfront, which typically includes purchasing assets, paying for installation, or other initial expenditures. Once you determine the present value of all future cash flows—based on their expected inflows and considering the time value of money by applying an appropriate discount rate—you then subtract the initial investment from this sum. This calculation effectively gives you the net value that the investment is expected to generate after covering its initial costs. Subtracting future cash flows or their present value does not make sense in the context of NPV, as that would misrepresent the calculation by confusing income with expenses. The residual value might also be relevant in capital budgeting, but it is generally not subtracted directly in the calculation of NPV; rather, it might be included in the cash flows or considered separately in terminal value assessments. Lastly, the discount rate is a factor used in calculating the present value of*

**2. What does the market risk premium represent?**

A. The return expected from risk-free investments.

B. The excess return from investing in the market over the risk-free rate.

C. The total return on government securities.

D. The average market return over a set time period.

*The market risk premium is a fundamental concept in finance that quantifies the additional return investors expect to receive from investing in the stock market over the return of a risk-free asset, such as government treasury bonds. It represents the extra compensation for taking on the higher risk associated with equity investments as compared to risk-free securities. By choosing the correct option, you highlight that the market risk premium measures the difference between the expected return on a market portfolio and the return on a risk-free investment. This premium is essential for assessing the potential rewards associated with equity investments relative to the safety of risk-free assets. Understanding this concept allows investors to make informed decisions about risk and return, helping them determine whether the potential earnings from investing in the stock market justify the additional risks involved. This knowledge also underpins various financial models, such as the Capital Asset Pricing Model (CAPM), which incorporates the market risk premium as a key component in calculating the expected returns on assets with different risk profiles.*

## 3. What is the yield percentage in relation to stock prices?

A. Percentage of dividends paid relative to the stock price

B. Percentage of total sales earnings

C. Percentage of stock price increase

D. Percentage of company profits

*The yield percentage in relation to stock prices specifically refers to the percentage of dividends paid relative to the stock price. This concept is known as the dividend yield, which is a financial ratio that shows how much a company pays in dividends each year relative to its stock price. To calculate the dividend yield, you take the annual dividends per share and divide it by the current share price. This provides investors with an idea of how much return they are getting from owning the stock purely from dividends, independent of any changes in the stock price itself. A higher dividend yield can indicate that a stock may be undervalued or that the company is returning a good amount of profits to shareholders in the form of dividends. Understanding this concept is crucial for investors who prioritize income generation from their investments, as opposed to those who might focus solely on capital appreciation or price increases of the stock. Thus, choosing the percentage of dividends paid relative to the stock price accurately captures the essence of yield percentage in the context of stocks.*

## 4. What is the definition of systematic risk?

A. The risk that affects a specific investment

B. The risk that arises from market-wide factors

C. The risk associated with fixed-income securities

D. The risk of a company failing

*Systematic risk is defined as the risk inherent to the entire market or market segment. This type of risk is influenced by external factors that impact the overall economy, such as changes in interest rates, inflation, political instability, or economic recessions. Because systematic risk affects all securities in the same way, it cannot be eliminated through diversification. Instead, investors must manage this risk through strategies such as asset allocation or hedging. In contrast, risks that pertain to specific investments, fixed-income securities, or the potential failure of a single company are considered unsystematic risks. These are risks unique to a particular asset or group of assets and can typically be minimized by diversifying one's investment portfolio. Understanding the distinction between systematic risk and unsystematic risk is crucial for investors in constructing and managing their investment strategies effectively.*

## 5. What would be the present value of XYZ company stock if it is expected to pay a $5.50 dividend and have a future price of $120 with a required rate of return of 15%?

A. 109.13

B. 115.00

C. 120.00

D. 100.00

*To find the present value of XYZ company stock, you need to calculate the present value of the expected future cash flows, which include the dividend and the future selling price of the stock. The formula to calculate the present value (PV) of these cash flows is as follows: \[ PV = \frac{D}{(1 + r)} + \frac{P}{(1 + r)} \] Where: - \( D \) is the expected dividend ($5.50), - \( P \) is the expected selling price ($120), - \( r \) is the required rate of return (15% or 0.15). Now, you can calculate it step by step: 1. Calculate the present value of the dividend: \[ PV_{dividend} = \frac{5.50}{(1 + 0.15)} = \frac{5.50}{1.15} \approx 4.78 \] 2. Calculate the present value of the future price: \[ PV_{price} = \frac{120}{(1 + 0.15)} = \frac{120}{1.15} \approx 104.35 \] 3. Now, add both*

## 6. In the project involving the new machine, what is the initial outlay for Heritage Corporation after considering tax impacts?

A. -$26,700

B. -$20,000

C. -$45,000

D. -$30,000

*To determine the initial outlay for Heritage Corporation after considering tax impacts, it is essential to analyze how the costs associated with purchasing the new machine interact with tax considerations. The initial outlay of a project typically includes not only the purchase price of the machine but also any adjustments due to tax implications, such as the loss of tax shields from depreciation. If we assume that the machine has a purchase price and that there are other associated costs, we would account for the immediate cash flow effect. When considering the tax impact, it may involve calculating the depreciation (if applicable), which would reduce taxable income and subsequently the taxes owed. This potential tax benefit can effectively reduce the initial outlay since it represents a cash flow advantage to the company. The correct answer indicates that, after factoring in these tax effects, the initial outlay will amount to -$26,700. This shows that the company has to spend that amount in cash to acquire the machine (including costs and taxes). It reflects a scenario where the reductions from tax savings or other costs have been factored into the overall cash flow. When looking at the other provided options, they represent different amounts that do not consider the full tax effect or are inaccurately calculated based on the information given in the*

## 7. When faced with size disparity, which project selection criterion is most effective?

A. Choose the project with the lowest IRR

B. Select based on the highest profitability index (PI)

C. Opt for the one with the highest net present value (NPV)

D. Prioritize projects with shorter lifespans

*The most effective project selection criterion when faced with size disparity is the choice based on the highest net present value (NPV). NPV is a financial metric that calculates the present value of all cash flows (both incoming and outgoing) associated with a project, discounted at the company's cost of capital. This method is paramount because it provides a comprehensive assessment of the expected profitability of a project in absolute dollar terms. When comparing projects of different sizes, NPV accounts for the time value of money and allows for an accurate appraisal of the expected financial return over the project's lifespan. In scenarios where projects differ in scale, relying solely on other criteria, such as internal rate of return (IRR) or profitability index (PI), may lead to misleading conclusions. The IRR can be skewed for projects of different sizes because it does not take into account the actual money involved, while the profitability index can also misrepresent the value if cash flows are particularly large or small. Furthermore, prioritizing shorter lifespans does not inherently correlate with financial effectiveness; it's more about the total value generated. By focusing on NPV, decision-makers ensure that they are selecting the project that maximizes shareholder wealth, ultimately leading to better long-term financial strategy and investment*

## 8. What is the significance of a project's cash flow pattern in evaluating time disparity?

A. It determines the required return for the project

B. It affects the calculation of future cash flows

C. It influences the timing and value of cash flows impacting NPV

D. It allows for easier project comparison

*The significance of a project's cash flow pattern in evaluating time disparity is fundamentally centered around the timing and value of cash flows, which directly impacts the Net Present Value (NPV) of a project. In finance, cash flows do not have the same value at all times due to the time value of money, which states that a dollar received today is worth more than a dollar received in the future. When evaluating a project, understanding its cash flow pattern is crucial because it determines when cash inflows and outflows occur, which affects their present value. If cash flows are received earlier, their present value is higher, making the project more attractive. Conversely, cash flows that occur further in the future might be less valuable in present terms, potentially diminishing the project's NPV. In particular, the timing of cash flows influences how the discount rate is applied over time, amplifying or lessening their effects. Thus, accurately representing the project's cash flow pattern allows decision-makers to forecast better and understand the risks associated with different timing scenarios, ultimately influencing investment decisions based on NPV calculations.*

## 9. Which type of equity is generally considered more expensive?

A. Debt

B. Preferred equity

C. Common equity

D. Retained earnings

*Common equity is generally considered more expensive than other types of financing due to several key factors. Firstly, common equity represents ownership in a company and comes with the highest level of risk for investors. Shareholders require a higher return on their investment to compensate for this risk, as they are last in line to be paid in the event of liquidation after creditors and preferred shareholders. Moreover, the cost of common equity is influenced by market conditions, the company's performance, and the expected future growth rates. Investors anticipate high returns to justify their investment, which leads to a higher expected cost of equity compared to debt or preferred equity. The required return on common equity often reflects the potential for capital gains and dividends that investors expect, which further drives up its cost. In contrast, debt is usually cheaper because it provides fixed interest payments and has the priority claim over equity in the capital structure in case of liquidations. Preferred equity may also have a lower cost than common equity due to its fixed dividend payments and use of a priority claim for dividends. Retained earnings, being internally generated funds, do not incur new costs, but are often viewed as a cheaper source of equity than issuing new common stock.*

## 10. What is 'credit risk'?

A. Risk of market price fluctuations

B. Risk of loss from borrower default

C. Risk associated with investment diversification

D. Risk tied to economic downturns

*Credit risk refers to the potential that a borrower will fail to meet their obligations in accordance with agreed-upon terms, leading to financial loss for the lender. This risk is particularly significant in lending and credit markets, where financial institutions evaluate the likelihood of a borrower defaulting on a loan. When assessing credit risk, factors such as the borrower's credit history, income stability, and overall financial health are taken into account. The other options refer to different types of risks. Market price fluctuations are associated with market risk, where the value of investments may change due to variability in market conditions. Investment diversification relates to reducing investment risk by spreading assets across various investments, thus lowering the impact of any single asset's poor performance. Economic downturns are more closely tied to systematic risks that affect entire markets or economies, as opposed to the specific risk inherent in individual borrowers or credit transactions. Thus, the definition of credit risk aligns specifically with the consequences of borrower default, making it the correct interpretation.*

# Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://ucf-fin3403-exam3.examzify.com

We wish you the very best on your exam journey. You've got this!