

1. Which of the following is an advantage of using a value-added network for EDI transactions?

- A. Decrease in cost of EDI.
- B. Ability to deal with differing data protocols.
- C. Increase in data redundancy.
- D. Direct communication between trading partners.

ANSWER: B

A value-added network is a privately owned network that routes EDI transactions and alleviates problems related to differences between various organizations' hardware and software.

2. If the Federal Reserve wanted to increase money supply, it would:

- A. Change the multiplier effect.
- B. Increase reserve requirements.
- C. Sell more US Treasury bonds.
- D. Reduce the discount rate.

ANSWER: D

If the Federal Reserve reduced the discount rate, banks would be encouraged to borrow more money from the Federal Reserve. In turn, this would increase the money supply.

3. In which of the following situations would the benefit of debt financing over equity financing be most pronounced?

- A. High marginal tax rates and many noninterest tax benefits.
- B. Low marginal tax rates and few noninterest tax benefits.
- C. Low marginal tax rates and many noninterest tax benefits.
- D. High marginal tax rates and few noninterest tax benefits.

ANSWER: D

When the marginal tax rate is high and the company has few noninterest tax benefits, the deduction for interest on debt is maximized. Subsequently, debt financing would be more beneficial.