

***Corporate Finance, 6e (Berk/DeMarzo)***  
**Chapter 1 The Corporation**

**1.1 The Four Types of Firms**

1) A sole proprietorship is owned by:

- A) one person.
- B) two or more persons.
- C) shareholders.
- D) bankers

Answer: A

Diff: 1

Section: 1.1 The Four Types of Firms

Skill: Definition

2) Which of the following organization forms for a business does NOT avoid double taxation?

- A) Limited partnership
- B) "C" corporation
- C) "S" corporation
- D) Limited liability company

Answer: B

Diff: 1

Section: 1.1 The Four Types of Firms

Skill: Conceptual

3) Which of the following organization forms accounts for the most revenue?

- A) "S" corporation
- B) Limited partnership
- C) "C" corporation
- D) Limited liability company

Answer: C

Diff: 1

Section: 1.1 The Four Types of Firms

Skill: Conceptual

4) Which of the following organization forms accounts for the greatest number of firms?

- A) "S" corporation
- B) Limited partnership
- C) Sole proprietorship
- D) "C" corporation

Answer: C

Diff: 1

Section: 1.1 The Four Types of Firms

Skill: Conceptual

5) Which of the following is NOT an advantage of a sole proprietorship?

- A) Single taxation
- B) Ease of setup
- C) Limited liability
- D) No separation of ownership and control

Answer: C

Diff: 2

Section: 1.1 The Four Types of Firms

Skill: Conceptual

6) Which of the following statements regarding limited partnerships is TRUE?

- A) There is no limit on a limited partner's liability.
- B) A limited partner's liability is limited by the amount of their investment.
- C) A limited partner is not liable until all the assets of the general partners have been exhausted.
- D) A general partner's liability is limited by the amount of their investment.

Answer: B

Diff: 2

Section: 1.1 The Four Types of Firms

Skill: Conceptual

7) Which of the following is/are an advantage of incorporation?

- A) Access to capital markets
- B) Limited liability
- C) Unlimited life
- D) All of the above

Answer: D

Diff: 2

Section: 1.1 The Four Types of Firms

Skill: Conceptual

8) Which of the following statements is most correct?

- A) An advantage to incorporation is that it allows for less regulation of the business.
- B) An advantage of a corporation is that it is subject to double taxation.
- C) Unlike a partnership, a disadvantage of a corporation is that it has limited liability.
- D) Corporations face more regulations when compared to partnerships.

Answer: D

Diff: 2

Section: 1.1 The Four Types of Firms

Skill: Conceptual