1. Granby Retail builds up inventory and receivables ahead of its busy season, creating a temporary cash need until those sales are collected. This is the kind of need that companies meet with:

a. External short-term financing during the cash conversion cycle
b. A multiyear bond issued to carry the seasonal stock
c. A permanent increase in ownership equity

2. A company wants the fastest and most flexible access to short-term cash among its external options. It would most likely turn first to:

a. A factoring arrangement for its receivables
b. A bank line of credit
c. A public commercial paper program

3. A company holds an uncommitted line and draws on only part of it during the quarter. The interest it owes is based on:

a. The full size of the credit line for the whole period
b. A fixed fee regardless of how much is used
c. Only the principal actually outstanding while in use

4. Linmoor Bank can offer uncommitted lines cheaply under normal conditions partly because, until a line is actually drawn, the bank:

a. Needs to hold only minimal capital against it
b. Must reserve the full credit line in cash
c. Pays the borrower a standby fee

5. A company expects to repay a drawn committed line earlier than scheduled and wants to avoid an early-repayment charge. Under a regular committed line, it can most likely:

a. Repay early, but only after paying a prepayment penalty
b. Repay early without any penalty
c. Repay early only by converting the balance to a term loan

6. A bank weighs offering Pelham Chemicals a committed line instead of an uncommitted one. Holding other things equal, the committed line obliges the bank to set aside:

a. Less capital than the uncommitted line
b. The same capital as the uncommitted line
c. More capital than the uncommitted line

7. Aside from being a multiyear commitment, a revolver's borrowing rates and commitment fees are most comparable to those of:

a. A regular committed line of credit
b. An uncommitted line that charges no fee
c. A factoring arrangement priced as a discount

8. Beyond standard revolving short-term drawing, a revolving credit agreement may also include:

a. A requirement to factor all receivables
b. Optional medium-term loan features
c. A waiver of all borrower covenants

9. Ashworth Foods arranges a secured loan and must pledge collateral. Which of the following would qualify?

a. Its expected future market share
b. The goodwill of its workforce
c. High-quality receivables, inventory, or marketable securities

10. Corveth Manufacturing can raise cash from its receivables by either assigning them or factoring them. Under factoring, the receivables are:

a. Sold to the factor, typically at a substantial discount
b. Pledged as collateral while the company keeps collecting them
c. Left in place while the company issues commercial paper against them

11. When a lender makes a secured loan, the security interest it files against the pledged asset gives the lender:

a. Ownership of the company's entire business
b. The right to possess the asset until the loan is repaid
c. A share of the company's future profits

12. Brennan Aerospace, a large and highly rated firm, finds that issuing short-term notes in the market is cheaper than borrowing the same amount from its bank. It would most likely fund itself with:

a. A secured asset-based loan
b. A factoring facility
c. Commercial paper

13. A company preparing to issue commercial paper learns it can distribute the notes either to the broad market or to a small group of selected investors. These two routes are, respectively:

a. A public market offering and a private placement
b. A syndicated revolver and a factoring sale
c. A secured loan and an assignment

14. Vasari Goods is willing to pay a commitment fee to obtain greater assurance that its bank will lend even if conditions sour. Relative to an uncommitted line, the facility that provides this is:

a. A secured loan against inventory
b. A committed line of credit
c. A factoring arrangement

15. A company considers funding a project that will generate cash only over the next several years by repeatedly issuing commercial paper. The main drawback is that commercial paper:

a. Can only be issued by financial institutions
b. Must always be secured by the project's assets
c. Typically matures in under three months, so the funding must be continually rolled over