

## ETS® Major Field Test in Master of Business Administration Sample Questions

**Directions:** This section contains independent questions as well as questions related to case-based scenarios. Each of the questions or incomplete statements is followed by four suggested answers or completions. Select the one that is best in each case.

- Which of the following organizations is most likely to use project financing?
  - A small start-up
  - A financial services firm with an extensive client list
  - A large consumer goods company
  - A large public utility involved in infrastructure development
- After an extensive recruitment process to select well-qualified individuals, a large percent of a company's new hires resigned within the first month of the job. Which of the following is the most likely explanation for this situation?
  - The training process to prepare the new hires for their assigned tasks was inadequate.
  - The health benefits provided by the company were not competitive with those of the rest of the industry.
  - The starting salary for the new hires was not competitive with that of the rest of the industry.
  - The new hires lacked the basic skills required to learn the job.
- Proscio Ltd. employs a process cost system. Inspection of units occurs at the 50 percent mark. Defective units are then removed from the process, and their cost (\$4.50) is absorbed by the good units. Proscio has recently been approached by a firm wishing to buy the defective units for a special use. The firm would require Proscio to modify the defective units at a unit cost of \$2.00. If Proscio sells the defective units to the firm for \$5.00 each, how would Proscio's reported income be affected?
  - It would decrease by \$4.50 per unit sold.
  - It would decrease by \$1.50 per unit sold.
  - It would increase by \$3.00 per unit sold.
  - It would increase by \$5.00 per unit sold.
- Some companies have little, if any, net income or earnings, yet they seem to have all the money they need for capital expenditures. Which of the following best explains how such companies operate?
  - They have good cash flows.
  - They lease capital equipment that does not show up on balance sheets.
  - They have accounts with many different banks.
  - They issue warrants to their officers.
- The Sintar Corporation has just announced that it will pay \$1.10 per share in dividends to its stockholders in the current quarter. The prior quarter's dividend was \$1.00 per share. The announcement indicates which of the following?
  - Management is sending a signal that it expects the economy to expand.
  - Management is sending a signal that the company has good projected future earnings.
  - While the company was able to pay a higher dividend, management preferred a more conservative figure.
  - The company has overextended its cash position and may have liquidity problems in the future.
- Wave Inc. is a telecommunications company that wants to become involved in e-commerce. It has to decide whether to develop a business-to-business or business-to-consumer strategy. As Wave's strategic planner, you have been asked to develop a business plan for each opportunity and present these to senior management. The answer to which of the following questions is most important to know before starting your plan?
  - What are the company's core competencies?
  - What is the potential market size?
  - What is the impact on the estimated revenue?
  - Does the company have e-commerce capabilities?

7. If you were the holder of a call option (having cost you \$2) on some stock with an exercise price of \$20, it would be best for you to exercise your option when the market price is at

- (A) \$18
- (B) \$20
- (C) \$22
- (D) \$24

8. Increased globalization and technological change, particularly in telecommunications, enable more organizations to adopt which of the following organizational structures?

- (A) Functional
- (B) Matrix
- (C) Network
- (D) Mechanistic

9. A new local Super Store publicly announced that when more than three people are standing in line at cash registers, additional checkout-lines will be opened. After the announcement, customers quickly noticed that the additional lines were not opened until six or seven people were standing in line. This indicates a gap between

- (A) customer expectation and management perception of customer expectation
- (B) management perception of customer expectation and service quality specifications
- (C) customer expectation and internal management communication
- (D) actual service delivery and how service quality was communicated

10. All of the following can be considered in the evaluation of a business unit EXCEPT

- (A) wages paid to labor
- (B) projected annual revenues of competitors
- (C) the cost of materials used in the production process
- (D) the price at which goods produced are sold

11. The sales division of a corporation is considering an internal product transfer because of excess demand. What is the lowest acceptable transfer price for the product?

- (A) The amount that the company would have to pay to acquire a similar product
- (B) The variable cost of producing a unit of product
- (C) The full absorption cost of producing a unit of product
- (D) The difference between the market price and the costs recaptured by transferring internally

12. You are considering investing in one of the four securities below, characterized only as follows.

Security	W	X	Y	Z
Expected return	15%	15%	17%	17%
Standard deviation of return	25%	30%	25%	30%

Which security makes the most prudent investment?

- (A) W
- (B) X
- (C) Y
- (D) Z

13. The Mart, a large retail chain, is considering whether or not to close down a division. The division's projected income statement for the next year follows.

Sales	\$20,000,000
Cost of goods sold	<u>17,000,000</u>
Gross profit	3,000,000
Operating costs:	
Building rents	\$2,500,000
Store clerk salaries	3,000,000
Store utilities	1,200,000
Allocated home office cost	<u>700,000</u>
Total operating costs	7,400,000
Anticipated loss	(\$4,400,000)

The building rents arise from long-term leases that cannot be cancelled. If The Mart closed down this division, what would be the increase in company profits?

- (A) \$700,000
- (B) \$1,200,000
- (C) \$3,000,000
- (D) \$4,400,000

14. Using manufacturing-based criteria to measure product quality, which of the following should you monitor on a regular basis?
- (A) Customers' subjective perceptions of the reliability of the product when in use
  - (B) The conformance of the finished product to agreed-to product specifications
  - (C) Objective, third-party tests of the performance of the product
  - (D) Warranty repair histories of the finished product
15. **The common stock of ABC, Inc.** has a current market price of \$52 per share. Dividends have been \$5 a share for several years and are not expected to change. The dividend yield of the stock of comparable companies is 10%. Which recommendation would you make regarding ABC, Inc. stock?
- (A) Purchase at \$52 per share because that is a fair price.
  - (B) Purchase at \$52 per share because the dividend yield will be 10.1%.
  - (C) Don't purchase, because the dividend yield will be only 2%.
  - (D) Don't purchase for more than \$50 per share.
16. Increasing a regular quarterly dividend payment may indicate which of the following about a corporation?
- I. Improved earnings prospects for the firm
  - II. A reduction in agency problems of free cash flow
  - III. A reduction in tax payments for shareholders
- (A) I only
  - (B) II only
  - (C) I and II only
  - (D) II and III only
17. Littleton, Inc., has fixed costs of \$75,000 per month, variable costs of \$5 per unit, and a sales price per unit of \$30. What is the break-even quantity per month?
- (A) 2,143
  - (B) 2,500
  - (C) 3,000
  - (D) 15,000
18. Which of the following should be reported net of tax on a corporation's income statement?
- (A) Discontinued operations
  - (B) Operating income
  - (C) Gross profit
  - (D) Gain on sale of delivery truck
19. If a multinational company cannot change the level of political risk in foreign markets, which of the following tactics would most likely offset possible losses?
- (A) Maintain control of distribution
  - (B) Use currency futures contracts
  - (C) Finance debt locally
  - (D) Maintain control of key inputs
20. Blessed Bundles is a regional clicks-and-mortar retail chain that sells maternity and baby products. It uses data from past purchases to study customers' product preferences, and it uses server tracking logs to study customers' online shopping behavior. Which of the following correctly describes the two types of market research data the company is using?
- | <u>Past Purchases</u> | <u>Server Tracking Logs</u> |
|-----------------------|-----------------------------|
| (A) Transactional     | Clickstream                 |
| (B) Clickstream       | Transactional               |
| (C) Private           | Public                      |
| (D) Public            | Private                     |

**Questions 21-27 are based on the following.**

Fjord Furniture has been manufacturing furniture in the United States for two decades. Based in Ohio, Fjord produces standard, noncustomized furniture for median price-range consumers. The furniture is produced through manual labor, and Fjord's primary advantage is the low cost of materials that are available close to the production facilities. The recent introduction of high-technology equipment such as laser-robotic lathes offers Fjord the opportunity for Fjord to reduce its reliance on manual labor and increase the use of automated systems. Adopting this technology will also allow the production facilities to operate around-the-clock. Profit margins are likely to decline after five years as competitors adopt the new technology.

Fjord is located in a region whose economy has been plagued by corporate consolidations and changes in manufacturing processes. Strong labor unions dominate the region, even though labor union membership has been declining in recent years. The local press has focused its reporting on the negative effects of outsourcing and workforce reductions.

21. If Fjord successfully implements the new technology, the move will most likely result in
  - (A) a decrease in total and variable cost and an increase in fixed cost
  - (B) a decrease in total cost, an increase in variable cost, and a decrease in fixed cost
  - (C) an increase in revenue and a decrease in variable cost and fixed costs.
  - (D) an increase in revenue, a decrease in variable cost, and an increase in fixed cost
  
22. Biggie Mart is a national chain of hypermarkets that carries a narrow line of inexpensive, standard furniture items. Biggie Mart offers to carry some of Fjord's furniture products if Fjord will provide several other products at reduced prices that will be sold under Biggie Mart's *Home with Biggie* brand name. Home with Biggie is which of the following kinds of brands?
  - (A) Parent
  - (B) Private
  - (C) Flanker
  - (D) Corporate
  
23. If Fjord's management installs new production technology, almost half the current workforce could be transferred to the production of high-quality, handcrafted wood furniture, a new line for the firm. Further, the marketing manager has identified a potential retailer for the line. Home Heritage sells only handcrafted wood furniture through its chain of small, locally franchised stores. Which of the following best describes Home Heritage?
  - (A) Specialty store
  - (B) Category killer
  - (C) Mass merchandiser
  - (D) Nontraditional retailer

24. A state government office wants a special order of furniture. Fjord is not currently operating at full capacity, but accepting the special order would require a reduction in production for regular customers. The state order is 10 percent less than Fjord normally charges. Fjord should produce furniture for the state and reduce other production if
- (A) the gross margin on the reduced amount of routine production is less than the gross margin on the state order
  - (B) the profit margin on the reduced amount of routine production is less than the profit margin on the state order
  - (C) the total revenue for the reduced amount of routine production is less than the total revenue on the state order
  - (D) net income for the month would remain unchanged by accepting the state order
25. If Fjord implements the technology solution, it will have a capital expenditure of \$2.5 million. The technology will allow Fjord to reduce significant variable costs, primarily in the area of labor. Assuming it maintains its existing debt-to-equity ratio in financing this acquisition, Fjord would be intending to make use of
- (A) financial leverage
  - (B) operating leverage
  - (C) increased asset utilization
  - (D) lower fixed costs
26. Fjord is planning to implement a new cost accounting system simultaneously with the technology solution. Which of the following cost drivers would work best to allocate overhead costs for this new system?
- (A) Units produced
  - (B) Sales dollars
  - (C) Labor hours
  - (D) Machine hours
27. Fjord makes the decision to implement the new technology at the cost of \$2.5 million. Fjord will use equity to finance part of this investment. Fjord has decided to institute a dividend reinvestment plan (DRIP). Stockholders will have the option of continuing to receive cash dividends or of having the company use the dividends to buy more of the company's stock. Fjord's management anticipates a high participation rate in the DRIP. A high participation rate suggests that Fjord stockholders
- (A) may be better off if the company were to reduce its cash dividend, which would save stockholders some personal incomes taxes
  - (B) are using the DRIP to lower their current personal tax liability payments, since stock is received rather than cash
  - (C) prefer a high cash dividend payout policy
  - (D) place more value on expected dividends than on expected capital gains

**Questions 28-33 are based on the following.**

Bertha Sunshine entered the travel business after having traveled regularly to the Caribbean and becoming familiar with the businesses in the region. She discovered a market need, and in the 1960's started Sunny Fun Destinations, a travel agency that specializes in providing air and ground transportation as well as hotel and meal arrangements for locations in the Caribbean.

In the 1970's, she started to see a shift in the market for students traveling during their spring break from school, and her agency expanded as she started to capitalize on the growth. Students who used to travel to Florida were increasingly frequenting destinations in the Caribbean.

Until recently, she had never considered segmenting the spring break market. She simply offered the same travel package to all customers, which included an incentive for organizers of trips with 15 students or more. Trip organizers receive their packages free of charge in exchange for agreeing to be chaperons for their student group. However, a recent upswing in negative media publicity has taken Bertha and her staff by surprise. The media has exposed heavy drinking by underage high school and college students at unchaperoned parties at destinations in the Caribbean.

Bertha is worried that she may be vulnerable from a publicity perspective. She wonders how responsible she, as tour operator, should be when she only provides arrangements for transportation, lodging, and food.

28. Assume that the average cost of airfare is \$400 per chaperone and incidentals are \$150 per day per chaperone. All vacation packages are for 6 days. If a ratio of one chaperone per 15 travelers is kept, what is the minimum amount that must be included in the vacation package price charged to each customer to cover the cost of a chaperone?
- (A) \$60
  - (B) \$87
  - (C) \$104
  - (D) \$150
29. Bertha has decided to use demographic segmentation to divide her market before she gives any additional consideration to redesigning her product offerings or communications strategies. Which would be the most useful demographic segmentation variable?
- (A) Religion
  - (B) Education
  - (C) Age
  - (D) Socioeconomic status
30. Bertha has concluded that to achieve company growth she must construct a strategic business plan. The first step of that process is to
- (A) conduct a situation analysis
  - (B) define her field of business
  - (C) develop a mission statement
  - (D) stratify the target market

31. Bertha is trying to hire a new travel specialist, whose job will be to promote tour packages and monitor customer satisfaction. Bertha has the following information for each applicant.

- I. Date and place of high school graduation
- II. Highest educational level attained
- III. Last three jobs held
- IV. Hobbies

Which information should Bertha consider carefully before deciding which applicant to interview?

- (A) I and II only
- (B) III and IV only
- (C) II and III only
- (D) II, III, and IV only

32. Bertha's agency regularly employs four people: two travel agents, one travel specialist, and Bertha, who functions as a business manager. Given the configuration of the office, which information network would be most effective?

- (A) Wheel network
- (B) Chain network
- (C) Circle network
- (D) All-channel network

33. Given the potential for negative publicity in serving the student market, which of the following would NOT be an appropriate marketing communication tool for Bertha to use to minimize this potential?

- (A) A press release stating the extent of the services provided by Sunny Fun Destinations
- (B) A reorganization of Sunny Fun Destinations' staff in which specific employees are charged with overseeing the student tour market
- (C) A press conference to let the public know about the new student tours
- (D) Detailed information on the student tour in advertisements

**Questions 34-37 are based on the following.**

ZAPPY is a manufacturer of hand-held game cartridges. It divides its market into three main market segments: the Americas, Europe, and Asia. Financial information for this fiscal year is presented below.

	Americas	Europe	Asia
Sales	\$100,000	\$70,000	\$90,000
Variable costs	60,000	42,000	54,000
Contribution margin	\$40,000	\$28,000	\$36,000
Direct fixed costs	5,000	4,000	3,000
Direct profit	\$35,000	\$24,000	\$33,000
Allocated home office cost	10,000	7,000	9,000
Segment profit	\$25,000	\$17,000	\$24,000

Note that the direct fixed costs refer to entry costs particular to each market, and these could be eliminated if ZAPPY exits a market. In addition, the home-office costs have been allocated to the market segments on the basis of division revenue.

Next year, ZAPPY expects sales to be flat in the Americas and in Europe but expects 20 percent growth in Asia.

34. The average collection period for all sales is 30 days. If all markets realize 40 percent of their total sales during November and December and otherwise accrue sales at an even rate during the year, which of the following will be the accounts receivable balance for the company on June 30 of the next fiscal year?
- (A) \$15,600
  - (B) \$16,680
  - (C) \$21,616
  - (D) \$23,161
35. The company is looking for a replacement for one of its markets. It has discovered that growth is expected in the African market. The projected direct fixed costs for Africa are \$2,000, and the expected sales volume is \$67,500, with a contribution margin of \$27,000. Which of the following should ZAPPY do?
- (A) Enter the new African market and exit the American market.
  - (B) Enter the new African market and exit the European market.
  - (C) Enter the new African market and exit the Asian market.
  - (D) Do not replace any of the existing markets.
36. ZAPPY management has seen a recent increase in customer complaints about the game cartridges not fitting into the computer hardware for which they are designed. The problem may arise with a supplier that makes a component of the game cartridge. Each of the following is an appropriate next step for ZAPPY to take EXCEPT
- (A) conduct sampling of the supplier's component before assembly to see whether it meets specifications
  - (B) check the reliability of the finished ZAPPY product
  - (C) formally contact the supplier through attorneys, since direct contact is likely to violate antitrust laws
  - (D) contact customers to have them demonstrate the problems they are having with cartridges
37. ZAPPY experienced an unusual demand prior to the holiday season and sold out of one of their game cartridge titles in early October. It was not possible to meet the demand for this particular title in time for the holiday rush. Which of the following should ZAPPY have done to minimize customer dissatisfaction?
- (A) Promoted another game title at a lower price.
  - (B) Offered rain checks and fulfilled orders when more cartridges of the sold-out title became available.
  - (C) Promised to bring in new shipments and hoped that customers did not buy another company's game.
  - (D) Apologized, but not offered any other options.



## Answers

1. D
2. A
3. C
4. A
5. B
6. A
7. D
8. C
9. D
10. B
11. D
12. C
13. B
14. B
15. D
16. C
17. C
18. A
19. C
20. A
21. A
22. B
23. A
24. A
25. B
26. D
27. A
28. B
29. C
30. C
31. C
32. D
33. B
34. B
35. B
36. C
37. B