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| *Indicate whether the statement is true or false.* |

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| --- | --- | --- | --- | --- | --- | --- |
| 1. A corporation possesses the same right of access to the courts as a natural person.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 2. The corporation is a creature of common law.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 3. One of the key advantages of the corporate form is the unlimited liability of its owners.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 4. The state can suspend the entity’s corporate status until the taxes are paid or even dissolve the corporation for failing to pay taxes.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 5. When a corporation earns profits, it must pass them on to shareholders in the form of dividends.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 6. A corporate director “owns” the corporation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 7. The board of directors hires officers to run the daily business of a corporation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 8. An *alien* corporation is a corporation formed in another country.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 9. The U.S. Postal Service is a public corporation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 10. A corporation cannot be formed without a profit-making purpose.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 11. A foreign corporation normally does *not* need a certificate of authority to sell goods or services via the Internet or by mail.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 12. A *publicly held corporation* is any corporation whose shares are publicly traded in a securities market.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 13. A corporation whose shares are all held by a single person is a *close corporation*.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 14. The Revised Model Business Corporation Act gives a close corporation more flexibility in determining its rules of operation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 15. An agreement between shareholders can restrict the transfer of a close corporation’s stock.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 16. If a corporation has S corporation status, it must pay income taxes at the corporate level.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 17. The articles of incorporation serve as a primary source of authority for the corporation’s future organization and business operations.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 18. Selecting the state in which to incorporate is an important step in the incorporation procedure.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 19. The purpose of a corporation may be specified in its articles of incorporation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 20. A corporation has perpetual existence in most states unless the articles of incorporation state otherwise.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 21. Bylaws are the internal rules of management for a corporation.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 22. Express powers of a corporation can be found in the U.S. Constitution.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 23. In the absence of express constitutional, statutory, or other provisions, the corporation has no implied powers.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 24. In corporate law, acts of a corporation that are beyond its express or implied powers are *de facto* or *de jure* acts.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 25. A *de jure* corporation is one that is not properly formed.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 26. A business that holds itself out as being a corporation may *not* be able to deny corporate status, even if it makes no attempt to incorporate.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 27. To pierce the corporate veil means to shield the shareholders from personal liability.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 28. In certain instances of fraud, a court may “pierce the corporate veil” to hold the shareholders individually liable.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 29. A court will *not* pierce the corporate veil of a corporation that is merely set up never to make a profit.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 30. A court will pierce the corporate veil of a corporation that is formed to accomplish an illegitimate objective.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 31. The date when the principal of a bond is returned to the investor is the *maturity date*.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 32. Stocks represent the borrowing of funds by firms.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 33. Firms are obligated to return a principal amount per share to each holder of common stock.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 34. Preferred stock is a stock with preferences.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 35. Venture capital is capital provided to new business ventures by professional, outside investors.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| *Indicate the answer choice that best completes the statement or answers the question.* |

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| 36. Neci and Olwen want to form and do business as a corporation—Pastries & Pies Inc. Its existence depends generally on​   |  |  |  | | --- | --- | --- | |  | a. | ​city or county corporate codes. | |  | b. | ​the *Entrepreneur’s Corporate Handbook*. | |  | c. | ​the federal Administrative Procedure Act. | |  | d. | ​state law. | |

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| 37. Rita and Susan want to form and do business as Trips & Travel Agency, Inc. They will serve as the firm’s directors and officers, and will initially hold all of the stock in the company. A corporation is owned by   |  |  |  | | --- | --- | --- | |  | a. | the board of directors.​ | |  | b. | the officers. | |  | c. | the employees. | |  | d. | ​the shareholders. | |

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| 38. Erin is a shareholder in Far East Adventures. As a shareholder, Erin   |  |  |  | | --- | --- | --- | |  | a. | owns shares of stock in Far East Adventures. | |  | b. | is the founder of Far East Adventures. | |  | c. | has no say in the election of Far East Adventures’s board of directors. | |  | d. | ​is liable for all the debts of Far East Adventures. | |

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| 39. Inez and Jason are the shareholders and directors of Kleen Kustodial Corporation. Lily and Moe are Kleen’s officers. As in other corporations, the responsibility for the overall management of Kleen rests with   |  |  |  | | --- | --- | --- | |  | a. | the board of directors. | |  | b. | the officers. | |  | c. | the owners. | |  | d. | ​the shareholders. | |

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| 40. Sean is the incorporator of Twisty’s Pretzels Corporation. Ross is a shareholder, Phyllis is a director, and Velma is an officer. The day-to-day operations of Twisty’s Pretzels are overseen by   |  |  |  | | --- | --- | --- | |  | a. | Velma. | |  | b. | Ross. | |  | c. | Sean. | |  | d. | ​Phyllis. | |

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| 41. Finn and Glenda want to form and do business as Hobby Crafts Corporation. A corporation is   |  |  |  | | --- | --- | --- | |  | a. | a natural person. | |  | b. | a tangible thing. | |  | c. | an artificial being. | |  | d. | ​a visible contemplation. | |

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| 42. Ruby Red Corporation is incorporated in South Carolina. In that state, Ruby Red is   |  |  |  | | --- | --- | --- | |  | a. | a domestic corporation. | |  | b. | a foreign corporation. | |  | c. | an alien corporation. | |  | d. | ​a non-entity. | |

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| 43. Dollars & Sense, Inc., is incorporated in the state of New Jersey and is doing business in the state of New York. In New York, Dollars & Sense is properly referred to as   |  |  |  | | --- | --- | --- | |  | a. | a domestic corporation. | |  | b. | a foreign corporation. | |  | c. | an alien corporation. | |  | d. | ​a public corporation. | |

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| 44. Wiley incorporates his business as Wiley Wire Corporation in Texas. He and his group of shareholders intend to make a profit from their sales of fencing wire. Wiley Wire Corporation is   |  |  |  | | --- | --- | --- | |  | a. | a nonprofit corporation. | |  | b. | not a corporation. | |  | c. | a benefit corporation. | |  | d. | ​a private corporation. | |

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| 45. The incorporation of the town of Halfway, Oregon, is approved by the state. Halfway is   |  |  |  | | --- | --- | --- | |  | a. | a publicly held corporation. | |  | b. | a public corporation. | |  | c. | a private corporation. | |  | d. | ​not a corporation. | |

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| 46. The shares of Home Mortgage Corporation are publicly traded in securities markets. Home Mortgage Corporation is   |  |  |  | | --- | --- | --- | |  | a. | a close corporation. | |  | b. | a privately held corporation. | |  | c. | a public corporation. | |  | d. | ​a publicly held corporation. | |

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| 47. A firm named Biometric Research makes an attempt to incorporate for a purpose other than making a profit. Biometric is   |  |  |  | | --- | --- | --- | |  | a. | a foreign corporation. | |  | b. | an alien corporation. | |  | c. | a nonprofit corporation. | |  | d. | ​not a corporation. | |

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| 48. Integrated Mobile Devices, Inc., is a private, for-profit corporation that is owned by five shareholders who are members of the same family. Integrated Mobile is   |  |  |  | | --- | --- | --- | |  | a. | an S corporation. | |  | b. | a close corporation. | |  | c. | a nonprofit corporation. | |  | d. | ​none of the choices. | |

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| 49. Bay City Merchants Corporation has six shareholders, four of whom are members of the same family. All of Bay City’s shareholders agree in writing to operate without shareholders’ meetings. Under the Revised Model Business Corporation Act, this most likely warrants   |  |  |  | | --- | --- | --- | |  | a. | no penalties or sanctions. | |  | b. | the imposition of a fine on Bay City. | |  | c. | the imprisonment of Bay City’s shareholders. | |  | d. | ​the piercing of Bay City’s corporate veil. | |

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| 50. Hudson and Elsa want to market a new line of kayaks and related gear under the brand name Journeys as a corporation—Journeys Inc. To avoid income taxes at the corporate level, they should form   |  |  |  | | --- | --- | --- | |  | a. | an alien corporation. | |  | b. | a close corporation. | |  | c. | an S corporation. | |  | d. | ​a private corporation. | |

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| 51. The abbreviation “P.A.” in the name “Conrad & Drake, Accountants, P.A.” means that this organization is   |  |  |  | | --- | --- | --- | |  | a. | a private association. | |  | b. | a professional association. | |  | c. | a public association. | |  | d. | ​a publicly administered corporation. | |

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| 52. Brightbox, Inc., would like to change its corporate status to that of an S corporation. To qualify, Brightbox must   |  |  |  | | --- | --- | --- | |  | a. | be a domestic corporation. | |  | b. | have more than one hundred shareholders. | |  | c. | be a benefit corporation. | |  | d. | ​all of the choices. | |

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| 53. Boutique Bodega Corporation would like to change its corporate status to that of an S corporation. To qualify, the shareholders must *not* be   |  |  |  | | --- | --- | --- | |  | a. | corporations. | |  | b. | estates. | |  | c. | individuals. | |  | d. | ​partnerships. | |

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| 54. Fiorina and Glen form HealthFood Inc. to coordinate the purchase, sale, and delivery of food products from Idyll Valley Cattle Ranch and other mid-size organic farms to hospitals, universities, and other institutions. HealthFood’s stated purpose is to make a profit and to have a material positive impact on society and the environment. HealthFood is   |  |  |  | | --- | --- | --- | |  | a. | a nonprofit corporation. | |  | b. | not a corporation. | |  | c. | a benefit corporation. | |  | d. | ​a private corporation. | |

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| 55. Brats & Brews, Inc., files its articles of incorporation with the appropriate government agency. Least likely to appear in the articles is the name of   |  |  |  | | --- | --- | --- | |  | a. | each of the corporation’s incorporators. | |  | b. | each of the corporation’s shareholders. | |  | c. | the corporation. | |  | d. | ​the corporation’s initial registered agent. | |

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| 56. Like the bylaws of other corporations, the bylaws of Rocks, Paper & Scissors, Inc.,   |  |  |  | | --- | --- | --- | |  | a. | establish the operating name of the corporation. | |  | b. | establish the value and classes of corporate stock. | |  | c. | were adopted at its first organizational meeting. | |  | d. | ​were submitted for approval to the public official in charge. | |

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| 57. Ben incorporates his app products business as Clickology, Inc. Under most state corporation statutes, Clickology can have   |  |  |  | | --- | --- | --- | |  | a. | only a finite, yet-to-be-determined existence. | |  | b. | only a one-year, nonrenewable existence. | |  | c. | only a one-year, renewable existence. | |  | d. | ​perpetual existence. | |

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| 58. Jennifer and Kaylan would like to form Lunch Truck, Inc., to enter the food vending business. Most likely, the articles of incorporation for Lunch Truck will *not* include   |  |  |  | | --- | --- | --- | |  | a. | the corporation’s name. | |  | b. | the name and address of the corporation’s registered agent. | |  | c. | the number of shares that the corporation is authorized to issue. | |  | d. | ​the minutes of the first organizational meeting. | |

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| 59. Oxley is a registered agent for Pads, Pods & Phones, Inc. (3P), which incorporated in California. As a registered agent, Oxley   |  |  |  | | --- | --- | --- | |  | a. | agreed to sell stock in 3P before it existed. | |  | b. | applied to California on behalf of 3P to obtain its corporate charter. | |  | c. | represents 3P as a marketing agent. | |  | d. | ​receives legal documents on behalf of 3P. | |

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| 60. Deepwater Dredging represents that it has corporate status to Estuary Marina when in fact Deepwater has not incorporated. The parties sign a contract that Deepwater does not perform. Estuary files a suit for breach. The court will likely hold that Deepwater is   |  |  |  | | --- | --- | --- | |  | a. | a corporation by estoppel. | |  | b. | not a corporation and therefore not liable on the contract. | |  | c. | a *de facto* corporation. | |  | d. | ​a *de jure* corporation. | |

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| 61. EZ Hauling holds itself out to customers as being a corporation but makes no attempt to incorporate. In this circumstance, EZ Hauling is most likely   |  |  |  | | --- | --- | --- | |  | a. | a corporation by estoppel. | |  | b. | a *de facto* corporation. | |  | c. | a *de jure* corporation. | |  | d. | ​a benefit corporation. | |

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| 62. Wings2Go Corporation fails to hold an organizational meeting. In this circumstance, Wings2Go is most likely   |  |  |  | | --- | --- | --- | |  | a. | a corporation by estoppel. | |  | b. | a *de facto* corporation. | |  | c. | a *de jure* corporation. | |  | d. | ​*ultra vires*. | |

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| 63. Hollywood Lights, Inc. substantially complies with all conditions precedent to incorporation. Hollywood is most likely   |  |  |  | | --- | --- | --- | |  | a. | a corporation by estoppel. | |  | b. | a *de facto* corporation. | |  | c. | a *de jure* corporation. | |  | d. | ​a benefit corporation. | |

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| 64. Music Makers Inc. has a stated purpose to sell musical instruments. If chief executive officer Ned contracts with Open Carry Firearms in Music’s name to sell a shotgun, he has likely committed   |  |  |  | | --- | --- | --- | |  | a. | an *ultra vires* act. | |  | b. | a *de facto* act. | |  | c. | a *de jure* act. | |  | d. | ​a legal act. | |

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| 65. Techno Talent & Personnel, Inc., is a corporation. Techno Talent’s implied powers enable it to   |  |  |  | | --- | --- | --- | |  | a. | none of the choices. | |  | b. | depart significantly from traditional corporate formalities. | |  | c. | bind the corporation to an action that will greatly affect its purpose. | |  | d. | ​borrow funds and lend funds. | |

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| 66. Rob owns Solar Fuel Corporation. Rob uses Solar Fuel’s funds to pay his personal expenses, creates Thermal Power Inc. to engage in the same business as Solar Fuel, transfers Solar Fuel’s assets to Thermal Power, and petitions Solar Fuel into bankruptcy. This most likely warrants   |  |  |  | | --- | --- | --- | |  | a. | a bonus to Rob for financial maneuvers. | |  | b. | a discharge for Solar Fuel in bankruptcy. | |  | c. | a pierce of the corporate veil. | |  | d. | ​a review of Thermal Power’s articles of incorporation. | |

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| 67. Vincento buys 500 shares of common stock in Water Reclamation & Conservation Services, Inc. As a shareholder of record, Vincento owns a proportionate interest with regard to Water Reclamation’s   |  |  |  | | --- | --- | --- | |  | a. | net assets. | |  | b. | control. | |  | c. | earnings. | |  | d. | ​all of the choices. | |

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| 68. Interstate Paving & Surfacing, Inc., issues bonds. Bonds   |  |  |  | | --- | --- | --- | |  | a. | are issued by businesses only. | |  | b. | are referred to as *fixed-income securities*. | |  | c. | feature voting rights. | |  | d. | ​require periodic interest payments from their owners. | |

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| 69. Blair and Chanel are holders of common stock in Discount Retail Stores, Inc. Like other holders of common stock, they have a *residual* position in the overall financial structure of Discount Retail, because they   |  |  |  | | --- | --- | --- | |  | a. | are guaranteed to receive more than the amount of their investment. | |  | b. | are the last to receive returns for their investment. | |  | c. | have priority to the firm’s assets if it becomes insolvent. | |  | d. | ​reside in the state of the firm’s incorporation. | |

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| 70. Sierra is a holder of preferred stock in Rio Grande Irrigation & Development, Inc. Sierra has priority over holders of Rio common stock as to   |  |  |  | | --- | --- | --- | |  | a. | nothing. | |  | b. | payments of dividends. | |  | c. | the date on which Rio must repurchase the shares. | |  | d. | ​upward changes in the market price of the shares. | |

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| 71. Agents and employees of Deco Arts Corporation and Echo Imitations Inc. are convicted of conspiring to violate a federal law that is punishable by a term of imprisonment and a fine. Can the corporations be held liable for these crimes? If so, how can they be punished? |

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| 72. PrimarySource.com Corporation is a new online, textbook, and school supply business. How can PrimarySource.com obtain capital to finance its operations? |

**Answer Key**

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| 1. True |

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| 2. False |

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| 3. False |

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| 4. True |

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| 5. False |

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| 6. False |

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| 7. True |

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| 8. True |

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| 9. True |

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| 10. False |

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| 11. True |

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| 12. True |

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| 13. True |

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| 14. False |

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| 15. True |

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| 16. False |

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| 17. True |

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| 19. True |

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| 20. True |

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| 21. True |

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| 22. True |

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| 23. False |

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| 24. False |

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| 25. False |

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| 27. False |

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| 28. True |

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| 30. True |

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| 31. True |

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| 32. False |

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| 33. False |

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| 34. True |

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| 35. True |

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| 36. d |

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| 37. d |

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| 38. a |

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| 39. a |

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| 40. a |

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| 41. c |

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| 42. a |

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| 43. b |

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| 44. d |

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| 45. b |

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| 46. d |

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| 47. c |

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| 48. b |

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| 49. a |

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| 50. c |

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| 51. b |

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| 52. a |

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| 53. d |

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| 54. c |

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| 55. b |

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| 56. c |

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| 57. d |

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| 58. d |

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| 59. d |

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| 60. a |

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| 61. a |

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| 62. b |

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| 64. a |

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| 66. c |

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| 67. d |

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| 68. b |

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| 69. b |

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| 70. b |

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| 71. Yes, the corporations can be held liable for the crimes of their agents and employees. As for punishment, the corporations cannot be imprisoned, but they can be fined. Under certain circumstances, corporate directors and officers may also be imprisoned for the criminal acts of agents and employees under their direct supervision. And any culpable party can be fined as much as hundreds of millions of dollars. |

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| 72. Generally, to obtain capital, a corporation issues securities, principally stocks and bonds. A security usually represents either an ownership interest in a firm (stock) or a debt owed by the firm (bond). Some debt is also in the form of accounts payable and notes payable, which can, like bonds, be marketed to obtain capital. The two major types of stock are common stock and preferred stock.  Other possibilities include venture capital financing and private equity capital. Venture capital is provided by professional, outside investors, who often also offer managerial and technical expertise. In return for their capital and advice, these investors expect to be given some control over the financed firm’s decisions. Private equity capital can come from a pool of investors who combine their funds. These investors often expect to buy an entire corporation, however, and reorganize it, selling off parts of the firm to pay debts.  PrimarySource.com, or any business firm, can also obtain capital by borrowing against or selling some of its assets. |