

Chapter 1

Comparative Corporate Governance and Financial Goals

■ Multiple Choice and True/False Questions

1. Major differences between international and domestic financial management include all of the following EXCEPT:
 - (a) political risk
 - (b) foreign exchange risk
 - (c) corporate governance
 - (d) All of the factors above involve differences between international and domestic financial management.

Topic: International Financial Management

Skill: Recognition

Answer: D

2. The authors cite investor Warren Buffet as an example of
 - (a) a nimble investor focusing on quarterly profits to buy and sell securities quickly.
 - (b) the patient capitalism school of investing.
 - (c) the impatient capitalism school of investing.
 - (d) successful investing in the dot.com market.

Topic: Multinational Firm

Skill: Recognition

Answer: B

3. Which of the following imperfections in national markets can multinational firms take advantage of?
 - (a) product differentiation
 - (b) economies of scale
 - (c) technological expertise
 - (d) All of the above.

Topic: Market Imperfections

Skill: Recognition

Answer: D

4. Many financial concepts taught in basic finance courses are actually culturally determined norms.
 - (a) True
 - (b) False

Topic: Basic Financial Concepts

Skill: Conceptual

Answer: A

5. In finance, an efficient market is one in which
- (a) prices are assumed to be correct.
 - (b) prices adjust quickly and accurately to new information.
 - (c) prices are the best allocators of capital in the macro economy.
 - (d) All of the above.

Topic: Efficient Markets

Skill: Recognition

Answer: D

6. In the Anglo-American model of corporate governance, the primary goal of management is to
- (a) maximize the wealth of all stakeholders.
 - (b) maximize shareholder wealth.
 - (c) minimize costs.
 - (d) minimize risk.

Topic: Anglo-American Model of Corporate Governance

Skill: Recognition

Answer: B

7. Systematic risk can be defined as
- (a) the total risk to the firm.
 - (b) the risk of the individual security.
 - (c) the added risk that a firm's shares bring to a diversified portfolio.
 - (d) the risk that can be systematically diversified away.

Topic: Systematic Risk

Skill: Recognition

Answer: C

8. Unsystematic risk can be defined as
- (a) the total risk to the firm.
 - (b) the risk of the individual security.
 - (c) the added risk that a firm's shares bring to a diversified portfolio.
 - (d) the risk that can be systematically diversified away.

Topic: Unsystematic Risk

Skill: Recognition

Answer: A

9. Systematic risk is of prime concern to management under the
- (a) patient capital theory of governance.
 - (b) corporate wealth maximization theory of governance.
 - (c) Anglo-American theory of governance.
 - (d) None of the above

Topic: Anglo-American Model of Corporate Governance

Skill: Conceptual

Answer: C

10. _____ is the study of how shareholders can motivate management to accept prescriptions of the shareholder wealth maximization model.
- (a) Patient capitalism
 - (b) Agency theory
 - (c) The capital asset pricing model
 - (d) The theory of multinational finance
- Topic: Agency Theory
Skill: Recognition
Answer: B
11. Which of the following is inconsistent with long-term corporate value maximization?
- (a) A focus on overly generous short-term stock options.
 - (b) A focus on long-term wealth maximization.
 - (c) The concept of patient capitalism.
 - (d) The avoidance of deceptive and dishonest business practices.
- Topic: Wealth Maximization
Skill: Recognition
Answer: A
12. Anglo-American markets are characterized by a philosophy that maintains a company's objective should be
- (a) Maximize Stockholder Wealth.
 - (b) Maximize Shareholder Wealth.
 - (c) Maximize Corporate Wealth.
 - (d) Maximize Profits.
- Topic: Wealth Maximization
Skill: Recognition
Answer: B
13. Continental European and Japanese equity markets are characterized by a philosophy of
- (a) Maximization of Return on Investment.
 - (b) Maximization of Shareholder Wealth.
 - (c) Maximization of Stakeholder Wealth.
 - (d) Profit Maximization.
- Topic: Wealth Maximization
Skill: Recognition
Answer: C
14. Corporate wealth maximization, also known as the stakeholder capitalism model, holds that total risk (operational and financial) is more important than just systematic risk.
- (a) True
 - (b) False
- Topic: Wealth Maximization
Skill: Recognition
Answer: A

15. The Stakeholder Capitalism Model

- (a) clearly places shareholders as the primary stakeholder.
- (b) combines the interests and inputs of shareholders, creditors, management, employees, and society.
- (c) has financial profit as its goal and is often termed impatient capital.
- (d) is the Anglo–American model of corporate governance.

Topic: Alternative Management Objectives

Skill: Recognition

Answer: B

16. The Shareholder Wealth Maximization Model

- (a) combines the interests and inputs of shareholders, creditors, management, employees, and society.
- (b) is being usurped by the Corporate Wealth Maximization Model as those types of MNEs dominate their global industry segments.
- (c) clearly places shareholders as the primary stakeholder.
- (d) is the dominant form of corporate management in the European-Japanese governance system.

Topic: Alternative Management Objectives

Skill: Recognition

Answer: C

17. Which of the following is NOT true about the stakeholder capitalism model (SCM)?

- (a) The definition of corporate wealth is broader than just financial wealth. It also includes technical, market, and human resources.
- (b) SCM considers total risk, including operating and financial risk as important.
- (c) SCM tries to meet the objectives of multiple stakeholders.
- (d) All of the above are true regarding SCM.

Topic: Wealth Maximization

Skill: Recognition

Answer: D

18. In recent years, trends have pointed toward the stakeholder capitalism model as the dominant form of wealth maximization.

- (a) True
- (b) False

Topic: Wealth Maximization

Skill: Recognition

Answer: B

19. A firm's intangible assets, its sources and uses of intellectual talent and its competitive advantage are collectively known as _____ of the firm.

- (a) global assets
- (b) short-term assets
- (c) knowledge assets
- (d) public service assets

Topic: Knowledge Assets

Skill: Recognition

Answer: C

20. According to a recent survey of 1000 global companies, the primary causes of lost stock value were _____.
- (a) strategic and operational
 - (b) operational and financial
 - (c) financial and hazard
 - (d) hazard and strategic
- Topic: Loss of Stock Value
Skill: Recognition
Answer: A
21. The relationship among stakeholders used to determine and control the strategic direction and performance of an organization is termed _____.
- (a) agency theory
 - (b) the asset pricing model
 - (c) corporate governance
 - (d) None of the above
- Topic: Corporate Governance
Skill: Recognition
Answer: C
22. Which of the following is a reason why managers act to maximize shareholder wealth in Anglo-American markets?
- (a) The use of stock options to align the goals of shareholders and managers.
 - (b) The market for corporate control that allows for outside takeover of the firm.
 - (c) Performance based compensation for executive management.
 - (d) All of the above.
- Topic: Corporate Governance
Skill: Recognition
Answer: D
23. With shareholder wealth maximization as the manager's goal, capital may be termed _____.
- (a) impatient
 - (b) patient
 - (c) borrowed
 - (d) bought
- Topic: Shareholder Wealth Maximization
Skill: Recognition
Answer: A
24. Generally speaking, which of the following is not considered an important factor in the composition and control of corporate boards of directors?
- (a) The number of insider vs outside directors.
 - (b) The total number of directors on the board.
 - (c) The composition of the compensation committee.
 - (d) All of the above are important factors of board composition.
- Topic: Corporate Board Composition
Skill: Recognition
Answer: D

25. In Anglo-American markets dual classes of stock (differential voting and dividend rights) are considered the norm.
- (a) True
 - (b) False
- Topic: Dual Classes of Stock
Skill: Recognition
Answer: B
26. Which of the following is an example of failed corporate governance in the financial markets?
- (a) The lack of full disclosure of off-balance-sheet debt by Enron Corporation.
 - (b) The capitalization of \$7.0 billion that should have been written off as operating expenses.
 - (c) Global Crossing hiding operating losses while still heavily promoting its stock.
 - (d) All of the above are examples of failed corporate governance.
- Topic: Corporate Governance
Skill: Recognition
Answer: D
27. Which of the following is NOT a realistic possible shareholder response to dissatisfaction with stock performance?
- (a) Move to Canada (walk away)
 - (b) Remain quietly disgruntled (the past)
 - (c) Change management (shareholder activism)
 - (d) Initiate a takeover (maximum threat)
- Topic: Corporate Governance
Skill: Recognition
Answer: A
28. From the U.S. regulatory pyramid, which of the following choices lists the key participants from top to bottom?
- (a) NYSE and other regulatory organizations, U.S. Congress, Individual brokerage firms, SEC
 - (b) Individual brokerage firms, SEC, NYSE and other regulatory organizations, U.S. Congress
 - (c) U.S. Congress, SEC, NYSE and other regulatory organizations, Individual brokerage firms
 - (d) SEC, Individual brokerage firms, U.S. Congress, NYSE and other regulatory organizations
- Topic: Corporate Governance
Skill: Recognition
Answer: C
29. The _____ is charged with enforcing anti-fraud statutes and policies as well as compliance with laws that require timely and accurate release of financial information by public companies.
- (a) Securities and Exchange Commission (SEC)
 - (b) Congress
 - (c) New York Stock Exchange (NYSE)
 - (d) Individual brokers
- Topic: Corporate Governance
Skill: Recognition
Answer: A

30. Signed into law on July 30, 2002, the _____ Act requires CEOs of publicly traded companies to vouch for the veracity of the firm's published financial statements.
- (a) Smoot-Hawley
 - (b) Humphrey-Hawkins
 - (c) McCain-Merrill
 - (d) Sarbanes-Oxley
- Topic: Corporate Governance
Skill: Recognition
Answer: D
31. Investor protection is typically better in countries with codified civil law (the Code Napoleon) than in countries with a legal system based in English common law.
- (a) True
 - (b) False
- Topic: Investor Protection
Skill: Conceptual
Answer: B
32. Oxelheim and Randøy studied a sample of Scandinavian firms and conclude that:
- (a) Electing Anglo-American board members can enhance firm value.
 - (b) The Anglo-American governance system offered improved monitoring systems.
 - (c) The election of Anglo-American board members in a non-Anglo-American firm is a positive signal to the market place.
 - (d) All of the above.
- Topic: Corporate Governance
Skill: Conceptual
Answer: D
33. The relatively low cost of compliance with the Sarbanes-Oxley Act (SOX) has been a surprising benefit of the act.
- (a) True
 - (b) False
- Topic: Sarbanes-Oxley
Skill: Recognition
Answer: B
34. The Sarbanes-Oxley Act, passed by the U.S. Congress in July 2002, was designed to
- (a) reinstitute heavy tariffs on international trade.
 - (b) reform corporate governance.
 - (c) limit the Federal Reserve Board's ability to engage in the buying and selling of gold.
 - (d) limit trade with countries deemed lenient on terrorism.
- Topic: Sarbanes-Oxley
Skill: Recognition
Answer: B