

## Session 2A: Post Class tests

1. The objective in corporate finance is to maximize firm value. In practice, this often gets narrowed down to maximizing stock prices. Which of the following reasons explain that narrowing?
  - a. Managers are more answerable to shareholders than to bondholders (or banks).
  - b. Maximizing shareholder value will also maximize firm value, if bond holders are protected.
  - c. Maximizing share prices will maximize shareholder value, if markets are efficient.
  - d. Share prices are observable and constantly updated.
  - e. All of the above.
2. We are often told that maximizing stock prices is incompatible with having a happy and well taken care of work force. In which of the following companies is this conflict most likely to manifest itself?
  - a. In a young, growth company with lots of investment opportunities
  - b. In a growing company, with large profits.
  - c. In a mature company, with large profits.
  - d. In a declining company with a large work force and shrinking profits.
  - e. None of the above
3. Customer satisfaction is the bedrock objective of many marketing gurus. How would you reconcile maximizing value with this objective?
  - a. You cannot. You have to pick one or the other.
  - b. Customer satisfaction is irrelevant. Only value matters.
  - c. Satisfied customers are more likely to be repeat customers, pushing up revenues and value.
  - d. Shareholder value is irrelevant. Only customer satisfaction matters.
4. Corporate social responsibility is a hot concept, as companies as asked to be more socially conscious in the decision making. How should companies incorporate this into their decision making?
  - a. They should not. It is their job to make money.
  - b. By making maximizing social welfare their primary objective.
  - c. By having dual objectives of maximizing value and maximizing social responsibility.
  - d. By maximizing value, with constraints on being as socially conscious as they can be, along the way.
  - e. By doing what they have always done to make money but hiring a PR firm to make them look social responsible.