Session 3a: Post Class tests

1. The objective in corporate finance is to maximize firm value. In practice, this is often narrowed down to maximizing the stock prices, for publicly traded firms. For the two objectives to be equivalent, which of the following assumptions do you need to make?
    a. Bondholders/ Lenders interests are fully protected
    b. Financial markets are efficient and rational
    c. Information about the firm is provided both timely and unbiased.
    d. All of the above
    e. None of the above
2. In publicly traded firms, the managers are "hired" and "fired" by stockholders and one of the mechanisms used to exercise this control is the annual meeting. Stockholders who are unable to go to the annual meeting can vote by "proxy", but many of them don't exercise that right. Barring a change in the corporate charter, what happens to these "unvoted" proxies at most US companies?
    a. They are not counted as votes at the annual meeting
    b. There are counted as votes against management at the annual meeting
    c. They are counted as votes for the management at the annual meeting
    d. They are split evenly for and against management at the annual meeting
    e. None of the above
3. In most publicly traded firms, institutional investors (mutual funds and pension funds) hold a significant proportion of the stock. Which of the following statements best characterizes how "most" of these investors behave?
    a. They are long term investors who take an active role in how the company is run, pushing managers to put stockholder interests first.
    b. They tend to go along with incumbent managers and if they are unhappy with a company's direction, they sell their shares.
4. Which of the following is the <u>primary mission</u> of a board of directors in a publicly traded firm?
    a. To provide advice and counsel to the top managers of the firm
    b. To protect incumbent managers from stockholder pressures and defend them against criticism.
    c. To ensure that top managers are acting in the best interests of the stockholders
    d. To protect society's best interests
    e. None of the above
5. When stockholders have little power over managers, managers put their interests over stockholder interests. Which of the following is a clear example of managerial interests being put ahead of stockholder interests?
    a. Borrow large amounts to fund a firm's operations
    b. Don't pay dividends.
    c. Refuse to do acquisitions
    d. Pay "greenmail" to a hostile acquirer
    e. Push stockholders to add anti-takeover amendments to the corporate charter