

## Session 4: Post class test solutions

1. **d. Give stockholders a say in whether or not you should adopt those CSR practices that may cost you profits.** If you want to be socially responsible, you have to be willing to commit resources (code for lower profits at least in the near term). However, as the CEO of a publicly traded firm, you have to be transparent and let stockholders have a say at least on the broad contours of what you plan to do (i.e., how much profits they will be willing to give up in return for being socially responsible)
2. **b. They are more efficient at dealing with company-specific problems (individual companies that are poorly run) but less efficient at dealing with systematic problems (where lots of companies make the same mistake).** Elitist or expert systems are quicker and deal more efficiently with small mistakes but are less willing to confront system-wide problems, often because they contributed to creating the problems in the first place.
3. **e. All of the above.** Hostile acquisitions, proxy fights, activist investors becoming more vocal and more assertive boards all represent the correcting mechanism at work. They happen in response to managers mismanaging the firm and hurting stockholder interests.
4. **d. With good corporate governance, stockholders will get a say in whether to replace managers in all companies.** Good corporate governance is like a good democracy. It does not guarantee that you will get a good government (management) or that voters (stockholders) will use their power only wisely. They will get the power, though, to choose for themselves.
5. **b. Maximize stockholder wealth, even if that means accepting lower stock prices (because markets make mistakes).** Maximizing stock prices is dangerous in an illiquid, unreliable market and since lenders are protected, maximizing stockholder wealth makes sense, though the stock price may take a while to catch up.