

Session 4: Post Class tests

1. You are the CEO of a publicly traded company and are exploring ways to make your company more socially responsible. To do so, you recognize that you may have to incur costs or turn away revenue sources, as a result of some of your choices. Which of the following would you do?
 - a. Only adopt those socially responsible practices that don't cost you profits
 - b. Only adopt those socially responsible practices that you can use as a public relations tool
 - c. Adopt all the practices that will make you more socially responsible and argue that stockholders have no say in the process
 - d. Give stockholders a say in whether or not you should adopt those CSR practices that may cost you profits
 - e. None of the above
2. One alternative to the "stockholder" focused corporate governance system that the US has adopted is a more centralized system, where corporate groups (Japan, Germany) or expert entities (China?) decide how and when to discipline managers. Which of the following statements best characterizes the latter?
 - a. They are more efficient (than stockholder based systems) in dealing with all types of management problems
 - 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)
 - c. They are less efficient at dealing with company-specific problems but more efficient at dealing with systematic problems
 - d. They are less efficient at dealing with all types of management problems
3. One of the arguments in favor of a "market-based" system is that it is self-correcting. When managers put their interests consistently over those of stockholders, which of the following is an example of this self-correcting process at work?
 - a. Proxy fights (where an investor challenges incumbent managers)
 - b. An hostile acquisition attempt on the firm
 - c. Activist investors "invest" in the company
 - d. A more assertive board of directors
 - e. All of the above
4. Stronger corporate governance is designed to make managers more accountable to stockholders. Which of the following statements best describes what good corporate governance creates?
 - a. With good corporate governance, all companies will be well managed
 - b. With good corporate governance, stockholders will replace the managers of all badly managed companies
 - c. With good corporate governance, stockholders will get a say in whether to replace managers in only badly managed companies
 - d. With good corporate governance, stockholders will get a say in whether to replace managers in all companies

- e. None of the above
5. Assume that you are advising the managers of a publicly traded company in an emerging market with illiquid, poorly functioning financial markets but strong protections for lenders. Which of the following objectives would you suggest as the “central” objective for the company?
- a. Maximize the stock price
 - b. Maximize stockholder wealth, even if that means accepting lower stock prices (because markets make mistakes)
 - c. Maximize book value of equity
 - d. Maximize revenue growth
 - e. None of the above