

***Multinational Business Finance, 12e (Eiteman, et al)***  
**Chapter 2 Financial Goals and Corporate Governance**

**2.1 Who Owns the Business?**

**Multiple Choice**

1) Foreign stock markets are frequently characterized by controlling shareholders for the individual publicly traded firms. Which of the following is NOT identified by the authors as typical controlling shareholders?

- A) The government (for example, privatized utilities).
- B) Institutions (such as banks in Germany).
- C) Family (such as in France).
- D) All of the above were identified by the authors as controlling shareholders.

Answer: D

Diff: 1

Topic: 2.1 Who Owns the Business?

Skill: Recognition

**True/False**

1) In the U.S. and U.K. stock markets are characterized by ownership of firms concentrated in the hands of a few controlling shareholders. In contrast, the rest of the world tends to have more widespread ownership of shares.

Answer: FALSE

Diff: 1

Topic: 2.1 Who Owns the Business?

Skill: Recognition

**2.2 What Is the Goal of Management?**

**Multiple Choice**

1) "Maximize corporate wealth"

- A) is the primary objective of the non-Anglo-American model of management.
- B) as a management objective treats shareholders on a par with other corporate stakeholders such as creditors, labor, and local community.
- C) has a broader definition than just financial wealth.
- D) all of the above

Answer: D

Diff: 1

Topic: 2.2 What is the Goal of Management

Skill: Recognition

2) The Shareholder Wealth Maximization Model

A) combines the interests and inputs of shareholders, creditors, management, employees, and society.

B) is being usurped by the Stakeholder Capitalism 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.

Answer: C

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Recognition

3) 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.

Answer: B

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Recognition

4) 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.

Answer: B

Diff: 1

Topic: 2.2 What is the Goal of Management

Skill: Recognition

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

Answer: D

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Recognition

- 6) Systematic risk can be defined as
- A) the total risk to the firm.
  - B) the risk of the individual security.
  - C) the risk of the market in general.
  - D) the risk that can be systematically diversified away.

Answer: C

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Recognition

- 7) 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 of the market in general.

Answer: B

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Recognition

- 8) The study of how shareholders can motivate management to accept the prescriptions of the shareholder wealth maximization model is called
- A) market efficiency.
  - B) the SWM model.
  - C) agency theory.
  - D) the SCM model.

Answer: C

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Recognition

- 9) Under the Shareholder Wealth Maximization Model of corporate governance, poor firm performance is likely to be faced with all but which of the following?
- A) Sale of shares by disgruntled current shareholders.
  - B) Shareholder activism to attempt a change in current management.
  - C) As a maximum threat, initiation of a corporate takeover.
  - D) Prison time for executive management.

Answer: D

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Conceptual

10) 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

Answer: D

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Conceptual

11) Which of the following is NOT true regarding the stakeholder capitalism model?

- A) Banks and other financial institutions are less important creditors than securities markets.
- B) Labor unions are more powerful than in the Anglo-American markets.
- C) Governments interfere more in the marketplace to protect important stakeholder groups.
- D) All of the above are TRUE.

Answer: A

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Conceptual

12) The stakeholder capitalism model

- A) typically avoids the flaw of impatient capital.
- B) tries to meet the desires of multiple stakeholders.
- C) may leave management without a clear signal about tradeoffs among the several stakeholders.
- D) all of the above

Answer: D

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Conceptual

13) Which of the following is generally NOT considered to be a viable operational goal for a firm?

- A) Maintaining a strong local currency.
- B) Maximization of after-tax income.
- C) Minimization of the firm's effective global tax burden.
- D) Correct positioning of the firm's income, cash flows and available funds as to country and currency.

Answer: A

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Conceptual

14) Which of the following operational goals for the international firm may be incompatible with the others?

- A) Maintaining a strong local currency.
- B) Maximization of after-tax income.
- C) Minimization of the firm's effective global tax burden.
- D) Each of these goals may be incompatible with one or more of the others.

Answer: D

Diff: 2

Topic: 2.2 What is the Goal of Management

Skill: Conceptual

15) The primary operational goal for the firm is to

- A) maximize after-tax profits in each country where the firm is operating.
- B) minimize the total financial risk to the firm.
- C) maximize the consolidated after-tax profits of the firm.
- D) maximize the total risk to the firm.

Answer: C

Diff: 3

Topic: 2.2 What is the Goal of Management

Skill: Conceptual

### **True/False**

1) The stakeholder capitalism model holds that total risk (operational and financial) is more important than just systematic risk.

A) True

B) False

Answer: A

Diff: 1

Topic: 2.2 What is the Goal of Management

Skill: Recognition

2) In recent years the trend has been for markets to increasing focus on the shareholder wealth form of wealth maximization.

A) True

B) False

Answer: A

Diff: 1

Topic: 2.2 What is the Goal of Management

Skill: Recognition

3) Patient Capitalism is characterized by short-term focus by both management and investors.

Answer: FALSE

Diff: 1

Topic: 2.2 What is the Goal of Management

Skill: Conceptual

4) Agency theory states that unsystematic risk can be eliminated through diversification.

Answer: FALSE

Diff: 1

Topic: 2.2 What is the Goal of Management

Skill: Recognition

5) The stakeholder capitalism model does not assume that equity markets are either efficient or inefficient.

Answer: TRUE

Diff: 1

Topic: 2.2 What is the Goal of Management

Skill: Conceptual

6) The stakeholder capitalism model assumes that only systematic risk "counts" or is a prime concern for management.

Answer: FALSE

Diff: 1

Topic: 2.2 What is the Goal of Management

Skill: Conceptual

7) Dividend yield is the change in the share price of stock as traded in the public equity markets.

Answer: FALSE

Diff: 1

Topic: 2.2 What is the Goal of Management

Skill: Recognition

## Essay

1) Describe the management objectives of a firm governed by the shareholder wealth maximization model and one governed by the stakeholder wealth maximization model. Give an example of how these two models may lead to different decision-making by executive management.

Answer: Shareholder wealth maximization attempts to do just that, typically through the maximization of share price. Stakeholder wealth maximization is much more difficult because of the necessity to satisfy many stakeholders all having approximately equal claim on the objectives of management. These stakeholders may include shareholders, creditors, customers, employees, and community. Differing decisions may occur in a situation that involves significant social costs. For example, in the U.S. the decision to shift production from a local factory to a foreign one may be in large based on the change in NPV as the result of the move with only minor consideration of the impact that a change in location would have on the community at large or the local employees. A manager of a stakeholder driven firm may place equal or greater emphasis on the local employees and community and choose to maintain the current facility rather than move even if the foreign operation provided a much greater NPV. Ultimately, the latter may cause an inefficient allocation of scarce resources and lead to an overall lower standard of living.

Diff: 3

Topic: 2.2 What is the Goal of Management

Skill: Conceptual

## 2.3 Corporate Governance

### Multiple Choice

1) Which of the following broad topics is NOT identified as an area to be established as good corporate governance practice by the Organization for Economic Cooperation and Development (OECD)?

- A) Protect the rights of shareholders.
- B) Disclosure and transparency.
- C) The proper role of stakeholders in the governance of the firm.
- D) All of the above should be a concern of good corporate governance.

Answer: D

Diff: 2

Topic: 2.3 Corporate Governance

Skill: Recognition

2) The relationship among stakeholders used to determine and control the strategic direction and performance of an organization is termed \_\_\_\_\_.

- A) corporate governance
- B) Anglo-American activism
- C) capital structure
- D) working capital management

Answer: A

Diff: 2

Topic: 2.3 Corporate Governance

Skill: Recognition

3) When discussing the structure of corporate governance, the authors distinguish between internal and external factors. \_\_\_\_\_ is an example of an internal factor, and \_\_\_\_\_ is an example of an external factor.

- A) Equity markets; executive management
- B) Debt markets; board of directors
- C) Executive management; auditors
- D) Auditors; regulators

Answer: C

Diff: 2

Topic: 2.3 Corporate Governance

Skill: Recognition

4) Which of the following is NOT commonly associated with a government affiliated form of corporate governance regime?

- A) No minority influence.
- B) Lack of transparency.
- C) State ownership of enterprise.
- D) All are associated with this type of corporate governance regime.

Answer: D

Diff: 2

Topic: 2.3 Corporate Governance

Skill: Recognition

5) 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.

Answer: D

Diff: 2

Topic: 2.3 Corporate Governance

Skill: Recognition



6) 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

Answer: D

Diff: 1

Topic: 2.3 Corporate Governance

Skill: Recognition

7) 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.

Answer: B

Diff: 1

Topic: 2.3 Corporate Governance

Skill: Recognition

### **True/False**

1) Regarding comparative corporate governance regimes: Bank-based regimes characterized by government influence in bank lending and a lack of transparency is often found in countries such as Korea and Germany.

Answer: TRUE

Diff: 2

Topic: 2.3 Corporate Governance

Skill: Recognition

2) 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.

Answer: FALSE

Diff: 2

Topic: 2.3 Corporate Governance

Skill: Conceptual

3) The relatively low cost of compliance with the Sarbanes-Oxley Act (SOX) has been a surprising benefit of the act.

Answer: FALSE

Diff: 1

Topic: 2.3 Corporate Governance

Skill: Recognition

4) According to recent research, family-owned firms in some highly-developed economies typically outperform publicly-owned firms.

A) True

B) False

Answer: A

Diff: 2

Topic: 2.3 Corporate Governance

Skill: Recognition