

Chapter 1: Corporations and Corporate Governance

True / False Questions

- F ____ Capitalism is an economic system of business based on public enterprise.
- T ____ The main goal of a company is to create an environment conducive to earning long-term profits.
- F ____ The owners of corporations act as agents for the firm and bear unlimited personal liability.
- T ____ Solutions to the principal-agent problem are incentives and monitoring.

Multiple Choice Questions

In general, basic forms of business can be ____.

- a. a sole proprietorship
- b. a partnership
- c. a corporation
- d. All of the above.**
- e. None of the above.

The principal-agent problem can be described as:

- a. Managers will always try to pursue enough profits to keep stockholders satisfied.
- b. The owner acts as the agent of the firm and the manager is the principal who controls the firm.
- c. If shareholders cannot effectively monitor the managers' behavior, managers may be tempted to use the firm's assets for their own ends.**
- d. All of the above
- e. None of the above.

According to Chapter 1, monitoring groups outside of the company can be all EXCEPT

- a. Auditors
- b. Board of Directors**
- c. Investment analysts
- d. All of the above are outside monitors.
- e. Both a and b.

Which is perhaps the most important advantage of the corporate business form?

- a. Easy to start up.
- b. Double taxation for shareholders can be avoided.
- c. Running a corporation is usually not very expensive.
- d. Access to the capital market.**
- e. None of the above is an important advantage.