Fundamentals of Multinational Finance, **3e (Moffett)**
Chapter 2 Financial Goals and Corporate Governance

2.1 Multiple Choice and True/False Questions

1) According to an article in the French newspaper Le Figaro, French firms that are mostly privately held are out-performed by firms that are more widely held public firms. Note: In this context performance is measured by return to the owners.
Answer: FALSE
Topic: Firm Value
Skill: Recognition

2) It may be (is probably the case) that family owned businesses the world over out-perform their publicly traded brethren. Which of these factors is attributed to family owned firm dominance over public firms?
A) a focus on the long-term
B) they stick to their core business
C) fewer agency problems (manager-owner conflicts)
D) all of the above
Answer: D
Topic: Firm Value
Skill: Conceptual

3) Anglo-American equity markets are characterized by widespread ownership of shares. In other parts of the world ownership is often dominated by consortiums of controlling shareholders. Which of the following is NOT an example of a common consortium of controlling shareholders?
A) Japanese keiretsus
B) South Korean chaebols
C) U.S. labor unions
D) all of the above are common controlling consortiums
Answer: C
Topic: Shareholder Value
Skill: Recognition

4) The study of how shareholders can motivate management to accept the prescriptions of the shareholder wealth maximization model is ________.
A) Sharpe/Treynor theory
B) agency theory
C) management theory
D) corporate board control theory
Answer: B
Topic: Shareholder Value
Skill: Recognition

Visit TestBankDeal.com to get complete for all chapters

5) During the 1990s, rapidly increasing stock prices exposed a flaw in the shareholder wealth maximization model, the seeking of short-term value maximization. Such behavior by management is characterized by all but which of the following?
A) a focus on quarterly earnings
B) overly generous use of stock options to motivate management
C) improper reporting of earnings by management
D) All of the above may be characteristics of short-term value maximization.
Answer: D
Topic: Shareholder Value
Skill: Recognition

6) Warren Buffett and his investment firm Berkshire Hathaway is an outstanding example of impatient capital investing.
Answer: FALSE
Topic: Shareholder Value
Skill: Recognition

7) The stakeholder capitalism model is characterized by the desire of controlling shareholders to maximize long-term return to equity just as in the shareholder wealth maximization model of corporate governance. However, stakeholder capitalism controlling shareholders are more constrained by which of the following groups than in the shareholder wealth maximization model?
A) banks
B) governments
C) other powerful stakeholders
D) all of the above
Answer: D
Topic: Shareholder Value
Skill: Recognition

8) Under the stakeholder capitalism model of corporate governance it is assumed that the long-term or "loyal" stockholders should influence corporate strategy more than the transient portfolio investor.
Answer: TRUE
Topic: Shareholder Value
Skill: Recognition

9) Under the shareholder wealth maximization model of corporate governance it is assumed that the long-term or "loyal" stockholders should influence corporate strategy more than the transient portfolio investor.
Answer: FALSE
Topic: Shareholder Value
Skill: Recognition

10) In recent years there has been an increasing focus on the wealth maximization model of corporate governance and a move away from the stakeholder capitalism model among MNEs.
Answer: TRUE
Topic: Shareholder Value
Skill: Recognition

11) Which of the following is a common operational financial objective for MNEs?
A) maximization of consolidated after-tax income
B) maximization of interest expense
C) minimization of revenues from other countries
D) minimization of total assets held in foreign locations
Answer: A
Topic: Operational Goals
Skill: Conceptual

12) Which of the following is a common operational financial objective for MNEs?
A) maximization of interest expense
B) minimization of the firm's effective global tax burden
C) minimization of revenues from other countries
D) minimization of total assets held in foreign locations
Answer: B
Topic: Operational Goals
Skill: Conceptual

13) Which of the following is a common operational financial objective for MNEs?
A) maximization of interest expense
B) minimization of revenues from other countries
C) correct positioning of the firm's income, cash flow, and available funds as to country and currency
D) minimization of total assets held in foreign locations
Answer: C
Topic: Operational Goals
Skill: Conceptual

14) Anglo-American is defined to mean
A) North, Central, and South America.
B) the United States, Canada, and Western Europe.
C) the United States, United Kingdom, Canada, Australia and New Zealand.
D) the United States, France, Britain, and Germany.
Answer: C
Topic: Fundamentals of Finance
Skill: Recognition

15) 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
Topic: Fundamentals of Finance
Skill: Recognition

16) 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
Topic: Fundamentals of Finance
Skill: Recognition

17) Systematic 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 that can be systematically diversified away.

Answer: C
Topic: Fundamentals of Finance
Skill: Recognition

18) Which of the following is the "signature" clause of the Sarbanes -Oxley Act?

A) CEOs and CFOs of publicly-traded firms must vouch for the veracity of the firm's financial statements.
B) Corporate board audit and compensation committee members must come from outside directors.
C) Companies may not make loans to their officers and directors.
D) Companies must test their internal financial controls against fraud.

Answer: A
Topic: Sarbanes-Oxley
Skill: Conceptual

19) Accountants and lawyers have found the costs to corporations to meet Sarbanes-Oxley regulatory requirements to be disappointingly small and less than anticipated when the legislation was enacted in 2002.

Answer: FALSE
Topic: Sarbanes-Oxley
Skill: Conceptual

20) 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 that can be systematically diversified away.

Answer: A
Topic: Fundamentals of Finance
Skill: Recognition

21) "Maximize corporate wealth"

A) is the primary objective of the European/Japanese 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

Topic: Alternative Management Objectives

Skill: Recognition

22) Corporate wealth maximization, also known as the stakeholder capitalism model, holds that total risk (operational and financial) is more important than just systematic risk.

Answer: TRUE

Topic: Alternative Management Objectives

Skill: Recognition

23) The Corporate Wealth Maximization 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

Topic: Alternative Management Objectives

Skill: Recognition

24) The Shareholder Wealth Maximization Model

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

B) is being usurped by the Corporate Wealth Maximization 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

Topic: Alternative Management Objectives

Skill: Recognition

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

Answer: TRUE

Topic: Alternative Management Objectives

Skill: Recognition

26) Under the Shareholder Wealth Maximization Goal 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
Topic: Corporate Governance
Skill: Conceptual

27) Non-Anglo-American markets are dominated by the "one-vote-one-share" rule.
Answer: FALSE
Topic: Corporate Governance
Skill: Conceptual

28) 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
Topic: Corporate Governance
Skill: Conceptual

29) Which of the following was NOT identified by the authors as a knowledge asset?

A) customer care
B) foreign macroeconomic issues
C) brand value
D) management skill

Answer: B
Topic: Firm Value
Skill: Recognition

30) 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
Topic: Operational Goals
Skill: Conceptual

31) 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
   Topic: Operational Goals
   Skill: Conceptual

32) Which of the following is an *operational* process that can destroy firm value?
   A) interest rate fluctuations
   B) competitive pressures
   C) natural disasters
   D) accounting irregularities
   Answer: D
   Topic: Operational Goals
   Skill: Conceptual

33) Privatization is a term used to describe
   A) firms that are purchased by the government.
   B) government operations that are purchased by corporations and other investors.
   C) firms that do not use publicly available debt.
   D) non-public meetings held by members of interlocking directorates.
   Answer: B
   Topic: Operational Goals
   Skill: Conceptual

34) The goal of all international corporations is to maximize shareholder wealth.
   Answer: FALSE
   Topic: Operational Goals
   Skill: Conceptual

35) According to a recent Forrester survey, which of the following categories is the single most important cause of losses of stock value?
   A) operational mistakes
   B) business hazard
   C) strategic mistakes
   D) financial mistakes
   Answer: C
   Topic: Risk
   Skill: Conceptual

36) Systematic risk can be eliminated through portfolio diversification.
   Answer: FALSE
   Topic: Risk
   Skill: Conceptual

37) According to the authors, dual classes of voting stock are the norm in non-Anglo-American markets.
Answer: TRUE
Topic: Corporate Governance
Skill: Recognition

38) Which of the following is not a form of direct foreign investment?
A) joint ventures
B) acquisitions of existing operations in a foreign country
C) franchising
D) international trade
Answer: D
Topic: The Globalization Process Fundamentals
Skill: Recognition

39) Typically, Licensing is considered to be a greater foreign investment than a Greenfield investment.
Answer: FALSE
Topic: The Globalization Process Fundamentals
Skill: Recognition

40) The deliberation of the of the process demonstrated in the European-Japanese system of corporate governance has sometimes been termed ________.
A) socialism
B) impatient capital
C) patient capital
D) communism
Answer: C
Topic: Corporate Governance
Skill: Recognition

41) With shareholder wealth maximization as the manager's goal, capital may be termed ________.
A) impatient
B) patient
C) borrowed
D) bought
Answer: A
Topic: Corporate Governance
Skill: Recognition

42) Which of the following is NOT an important concept when distinguishing between international and domestic financial management?
A) corporate governance
B) culture, history, and institutions
C) political risk
D) All of the above are important distinguishing concepts.
Answer: D
Topic: Financial Management
Skill: Recognition

43) The Board of Directors
A) consists exclusively of the officers of the corporation.
B) is the legal body which is accountable for the governance of the corporation.
C) are not subject to the external forces of the marketplace.
D) is appointed by the Securities and Exchange Commission (SEC).
Answer: B
Topic: Board of Directors
Skill: Recognition

44) 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
Topic: Corporate Governance
Skill: Recognition

45) 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
Topic: Corporate Governance
Skill: Recognition

46) According to recent research, family-owned firms in some highly-developed economies typically outperform publicly-owned firms.
Answer: TRUE
Topic: Family Ownership
Skill: Recognition

47) If share price falls from $15 to $12 per share, and pays a dividend of $1 per share, what was the rate of return to shareholders?
A) 13.33%
B) -13.33%
C) 16.67%
D) -16.67%
Answer: B
Topic: Shareholder Returns
Skill: Analytical

48) MultiProducts, Inc. has two classes of common stock. Class A has 1 million shares with 10 votes per share. Class B has 2 million shares with 1 vote per share. If the dividends per share are equal for both class A and B stock, then Class A shareholders have ________ of the votes and ________ of the dividends.

A) 33.33%; 33.33%
B) 33.33%; 83.33%
C) 83.33%; 83.33%
D) 83.33%; 33.33%

Answer: D
Topic: Shareholder Returns
Skill: Analytical

2.2 Essay Questions

1) Compare and contrast the Shareholder Wealth Maximization model and the Stakeholder Capitalism model for purposes of managerial goals.

Answer: SWM is at the heart of the Anglo-American form of corporate management in that the primary objective is to maximize shareholder's wealth. SWM assumes that markets are efficient in that security prices react quickly and correctly to the arrival of new information. Further, unsystematic risk can be eliminated through diversification and that systematic risk must be evaluated by market participants. Sometimes, however, capital can be impatient and cause management to focus on short-term benchmarks causing a shift away from wealth maximization.

The SCM recognizes that there are several powerful interests at work influencing management. In addition to stockholders, there are also banks, governments, and workers that place constraints on management behavior. SCM does not specifically assume efficient markets but it does consider total risk to be important in valuing a firm.

2) 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.

3) The Sarbanes-Oxley Act (SOX) was passes in 2002 by the U.S. Congress to address corporate governance reform. SOX has not been without controversy to put it mildly. Identify and discuss several positive and negative impacts of SOX on corporations here and abroad.

Answer: The Signature clause requires CEOs and CFOs to sign-off on financial statements. This in turn has led companies to do the same at multiple levels of management below the executive level. Costs have significantly exceeded expectations and disproportionately so for smaller organizations. Start-up firms in an attempt to avoid the legal and liability costs have opted to be purchased by larger existing companies rather than go public with IPOs. Firms may be more risk averse. International firms balked at having to meet the new standards especially when their existing markets may already provide more efficient and effective governance.

Visit TestBankDeal.com to get complete for all chapters