

## Chapter 02 Company Mission

### Multiple Choice Questions

1. (p. 23) The unique purpose that sets a company apart from others of its type and identifies the scope of its operations. In product, market and technology terms is defined as (the)

- A. Adverse selection
- B. Company mission**
- C. Moral hazard problem
- D. Vision statement

*Difficulty: Easy*  
*Learning Objective: 1*

2. (p. 23) Which external body requires that a company have a mission statement?

- A. None**
- B. SEC
- C. Justice Department
- D. IRS

*Difficulty: Hard*  
*Learning Objective: 1*

3. (p. 23) \_\_\_\_\_ is a statement, not of measurable targets but of attitude, outlook, and orientation.

- A. Company mission**
- B. Company vision
- C. Company strategy
- D. Company policy

*Difficulty: Easy*  
*Learning Objective: 1*

4. (p. 23) The company mission is a broadly framed but enduring statement of
- A.** A firm's intent
  - B. Corporate structure
  - C. A firm's competitive positioning
  - D. Stakeholder analysis

*Difficulty: Hard*  
*Learning Objective: 1*

5. (p. 23) The mission:
- A. Sets policy
  - B.** Describes the firm's product
  - C. Identifies stakeholders
  - D. Creates the board of directors

*Difficulty: Medium*  
*Learning Objective: 1*

6. (p. 24) As the business grows or is forced by competitive pressures to alter its product, market, or technology, \_\_\_\_\_ the company mission may be necessary.
- A.** redefining
  - B. abandoning
  - C. writing
  - D. discarding

*Difficulty: Hard*  
*Learning Objective: 1*

7. (p. 23) The mission reflects the:
- A.** Values of the decision makers
  - B. Goals of the decision makers
  - C. Experiences of the decision makers
  - D. Policies of firm

*Difficulty: Hard*  
*Learning Objective: 1*

8. (p. 23) The company mission identifies the
- A. Key competitors in the marketplace
  - B. Board of directors' responsibility towards the owners
  - C. Specific strategies for gaining market share
  - D.** Scope of its operations in product and market terms

*Difficulty: Medium*  
*Learning Objective: 1*

9. (p. 23) Which of these is NOT true about the company mission?
- A. It embodies the business philosophy of the firm's strategic decision makers
  - B. It implies the image the firm seeks to project
  - C.** It provides specific strategies for front-line managers
  - D. It reflects the firm's self-concept

*Difficulty: Hard*  
*Learning Objective: 1*

10. (p. 23) The company mission reflects the firm's
- A. Vision
  - B.** Self-concept
  - C. Corporate governance
  - D. Agency costs

*Difficulty: Medium*  
*Learning Objective: 1*

11. (p. 23) Characteristically, the company mission is a statement of all of these EXCEPT
- A. Attitudes
  - B. Outlooks
  - C. Measurable targets**
  - D. Orientation

*Difficulty: Easy*  
*Learning Objective: 1*

12. (p. 23) The mission statement is a message designed to be inclusive of the expectations of \_\_\_\_\_ stakeholders for the company's performance over the \_\_\_\_\_.
- A. All; long run**
  - B. Only key; short run
  - C. All; short run
  - D. Only key; long run

*Difficulty: Medium*  
*Learning Objective: 1*

13. (p. 24) A revised mission will contain \_\_\_\_\_ components as the original.
- A. the same**
  - B. more
  - C. fewer
  - D. different

*Difficulty: Hard*  
*Learning Objective: 1*

14. (p. 24) Which one of the following is NOT an outcome designed to be accomplished by a company mission?
- A. To provide a unifying purpose for the organization
  - B. To provide a basis for strategic objective setting
  - C. To provide a basis for decision making
  - D. To reward stockholders**

*Difficulty: Medium*  
*Learning Objective: 1*

15. (p. 24) In general terms, the mission statement addresses all of the following questions EXCEPT

- A. What are our economic goals?
- B. What is our operating philosophy in terms of quality, company image and self-concept?
- C. What customers do and can we serve?
- D.** Who are our competitors and how can we collaborate with them?

*Difficulty: Easy*  
*Learning Objective: 1*

16. (p. 24) In general terms, which of the following questions is addressed by the mission statement?

- A. How should we price our products?
- B.** What are our economic goals?
- C. Which employees should we hire?
- D. What leverage structure should we follow?

*Difficulty: Hard*  
*Learning Objective: 1*

17. (p. 24) The process of defining the company mission for a specific business can be best understood by

- A.** Thinking about the business at its inception
- B. Looking at the industry attributes
- C. Analyzing the regulatory requirements of what to include in a mission
- D. Analyzing the most successful competitors in the marketplace

*Difficulty: Hard*  
*Learning Objective: 1*

18. (p. 24) In deriving a mission statement, which of the following should be included?

- A. Tax advantages
- B. Secondary markets to be served
- C.** Concern for survival through growth
- D. Employee rules and policies

*Difficulty: Medium*  
*Learning Objective: 1*

19. (p. 24) When should a company redefine its mission?

- A. When the competition have failed
- B. When the board meets with top management annually
- C.** When the business is forced by competitive pressures to alter its products of market
- D. When the government requires the business to redefine it

*Difficulty: Hard*  
*Learning Objective: 1*

20. (p. 24) A mission statement should include all of these components EXCEPT

- A. Basic types of products or services to be offered
- B. The firm's managerial philosophy
- C. The public image the firm seeks
- D.** The government regulations the firm must meet

*Difficulty: Medium*  
*Learning Objective: 2*

21. (p. 24) Three indispensable components of the mission statements are specifications of the:

- A.** Basic product or service, primary markets and principal technology
- B. Self-concept, managerial philosophy and public image
- C. Concern for survival through growth, self-concept and primary markets
- D. Economic goals, core competencies and primary and secondary customers

*Difficulty: Easy*  
*Learning Objective: 2*

22. (p. 24) The combination of which of these factors describe the company's business activity?

- A.** Basic product or service, primary markets and principal technology
- B. Self-concept, managerial philosophy and public image
- C. Concern for survival through growth, self-concept and primary markets
- D. Economic goals, core competencies and primary and secondary customers

*Difficulty: Medium*  
*Learning Objective: 2*

23. (p. 26) All of these are economic goals that guide the strategic direction of organizations EXCEPT

- A. Survival
- B.** Market share
- C. Profitability
- D. Growth

*Difficulty: Easy*  
*Learning Objective: 3*

24. (p. 26) Which of the following goals are taken for granted to such an extent that it is neglected as a principal criterion in strategic decision making?

- A. Maturity
- B. Ethics
- C.** Survival
- D. Competitiveness

*Difficulty: Medium*  
*Learning Objective: 3*

25. (p. 26) When the survival goal is taken for granted, therefore neglected in strategic decision making, the firm's focus shifts to

- A. Long run
- B. Intermediate run
- C. Direction-less activities
- D.** Short run

*Difficulty: Hard*  
*Learning Objective: 3*

26. (p. 26) Profitability is the \_\_\_\_\_ goal of a business organization.

- A.** Mainstay
- B. Least important
- C. Non economic
- D. Subjective

*Difficulty: Easy*  
*Learning Objective: 3*

27. (p. 26) \_\_\_\_\_ is the mainstay goal of a business organization.

- A.** Profitability
- B. Products
- C. Service
- D. Growth

*Difficulty: Easy*  
*Learning Objective: 3*



28. (p. 26) A firm will be incapable of satisfying its stakeholders' claims, if it does NOT insure:

- A. Growth
- B. Survival**
- C. Profitability
- D. Competitive dominance

*Difficulty: Hard*  
*Learning Objective: 3*

29. (p. 26) Generally, \_\_\_\_\_ is accepted as the clearest indication of a firm's ability to satisfy the principal desires of employees and stockholders.

- A. Profit over the long term**
- B. Profit over the short term
- C. Return on assets
- D. The number of lawsuits brought against the firm

*Difficulty: Medium*  
*Learning Objective: 3*

30. (p. 26) A firm's \_\_\_\_\_ is tied inextricably to its survival and profitability.

- A. growth**
- B. prominence
- C. fame
- D. salability

*Difficulty: Easy*  
*Learning Objective: 3*

31. (p. 26) Basing decisions on a short-term concern for profitability would lead to
- A. A reduced market share
  - B. A strategic myopia**
  - C. A competitive warfare
  - D. A governmental lawsuit

*Difficulty: Hard*  
*Learning Objective: 3*

32. (p. 26) Growth means:
- A. Change**
  - B. Stability
  - C. Effectiveness
  - D. Efficiency

*Difficulty: Medium*  
*Learning Objective: 3*

33. (p. 26) Growth means change, and \_\_\_\_\_ change is required in a \_\_\_\_\_ business environment.
- A. proactive, dynamic**
  - B. reactive, dynamic
  - C. proactive, stable
  - D. reactive, uncertain

*Difficulty: Medium*  
*Learning Objective: 3*

34. (p. 26) In a dynamic business environment, \_\_\_\_\_ is essential.
- A. Status quo
  - B. Compromising ethics in decision making
  - C. Proactive change**
  - D. Adverse selection

*Difficulty: Medium*  
*Learning Objective: 3*

35. (p. 27) The company's philosophy is sometimes also called the:

- A.** Company creed
- B. Corporate profile
- C. Corporate motto
- D. Corporate symbol

*Difficulty: Easy*  
*Learning Objective: 4*

36. (p. 27) \_\_\_\_\_ vary little from one firm to another.

- A.** Philosophies
- B. Mission statements
- C. Goals
- D. Vision statements

*Difficulty: Medium*  
*Learning Objective: 4*

37. (p. 28) Most \_\_\_\_\_ are so platitudinous that they read more like public relations handouts.

- A.** Philosophies
- B. Mission statements
- C. Goals
- D. Vision statements

*Difficulty: Medium*  
*Learning Objective: 4*

38. (p. 27) The statement which usually accompanies the mission statement and expresses the firm's basic beliefs, values and aspirations is known as:

- A. Grand strategy
- B.** The company's statement of philosophy
- C. The company profile
- D. Long-term objectives

*Difficulty: Medium*  
*Learning Objective: 4*

39. (p. 28) Which of these often reads more like public relations handouts than the commitment to values they are meant to be?

- A. Firm's economic goals
- B. Company's self-concept
- C. Statement of company philosophy**
- D. Firm's core competencies and competitive advantage statement

*Difficulty: Medium*  
*Learning Objective: 4*

40. (p. 27) Given that managers implicitly accept a general, unwritten, yet pervasive code of behavior that govern business actions, the \_\_\_\_\_ vary little from one firm to another.

- A. Philosophies**
- B. Visions
- C. Missions
- D. Self-concepts

*Difficulty: Hard*  
*Learning Objective: 4*

41. (p. 28) The image the company seeks to project is reflected in the firm's:

- A. Profile
- B. Tactics
- C. Mission**
- D. Strategic options

*Difficulty: Medium*  
*Learning Objective: 4*

42. (p. 28) Mission statements should reflect the \_\_\_\_ expectations.

- A. public's
- B. managers'
- C. stockholders'
- D. Board of Directors'

*Difficulty: Medium*  
*Learning Objective: 4*

43. (p. 30) Which of the following statements about public image is FALSE?

- A. Negative public image often prompts firms to reemphasize the beneficial aspects of their mission
- B. The image the company seeks to project should be reflected in its mission
- C. Firms always address the question of their public image in an intermittent fashion
- D. Concern for public image is an important components of a firm's mission

*Difficulty: Hard*  
*Learning Objective: 4*

44. (p. 29) Firms \_\_\_\_ address the question of their public image in an intermittent fashion.

- A. seldom
- B. always
- C. frequently
- D. unanimously

*Difficulty: Medium*  
*Learning Objective: 4*

45. (p. 30) The idea that the firm must know itself is the essence of the company

- A.** Self-concept
- B. Objective
- C. Goal
- D. Strategy

*Difficulty: Medium*  
*Learning Objective: 4*

46. (p. 30) A major determinant of a firm's success is the extent to which it can relate functionally to the external environment. To accomplish this, the firm must have:

- A. Infinite sources of capital for expansion
- B.** A realistic self-concept
- C. Specific objectives and job descriptions
- D. Community involvement

*Difficulty: Hard*  
*Learning Objective: 4*

47. (p. 30) Much behavior in firms is \_\_\_\_\_ based.

- A. competitively
- B.** organizationally
- C. individually
- D. community

*Difficulty: Hard*  
*Learning Objective: 4*

48. (p. 30) The essence of the company self-concept is the idea that

- A. The firm's public image is positive
- B.** The firm must know itself
- C. The firm must know the industry
- D. The firm's economic goals must be aligned with the industry's top competitor

*Difficulty: Medium*  
*Learning Objective: 4*

49. (p. 30) Ace Tools Company performs an extensive evaluation of its competitive strengths and weaknesses. This effort is directed towards determining its

- A. Vision
- B. Economic goals
- C. Public image
- D. Self-concept**

*Difficulty: Medium*  
*Learning Objective: 4*

50. (p. 31) Which of these is the newest trend in mission components?

- A. Sensitivity to customer wants**
- B. Concern for suppliers and distributors
- C. Inclusion of both positive and negative aspects of public image
- D. Aligning the firm's self-concept to that of competitor's

*Difficulty: Easy*  
*Learning Objective: 5*

51. (p. 31) Which of these is NOT a newest trend in mission components?

- A. Concern for suppliers and distributors**
- B. Sensitivity to customer wants
- C. Concern for quality
- D. Statements of company vision

*Difficulty: Easy*  
*Learning Objective: 5*

52. (p. 31) Three issues have become prominent in the strategic planning for organizations and are increasingly becoming integral parts in the development and revisions of mission statements. These are:

- A. Self-concept, customers and markets
- B. Customers, quality and vision statement**
- C. Markets, quality and concern for employees
- D. Concern for employees, suppliers and customers

*Difficulty: Medium*  
*Learning Objective: 5*

53. (p. 32) "The customer is our top priority" is a
- A. Mission statement
  - B. Concern for quality
  - C. Slogan**
  - D. Vision statement

*Difficulty: Easy*  
*Learning Objective: 5*

54. (p. 32) Which two U.S. management experts fostered a worldwide emphasis on quality in manufacturing?
- A. Bill Gates and Steve Jobs
  - B. Bill Hewlett and Gary Packard
  - C. Bill Gates and Warren Buffet
  - D. W. Edwards Demming and J. M. Juran**

*Difficulty: Easy*  
*Learning Objective: 5*

55. (p. 32) All of these are Demming's well-known points on quality EXCEPT:
- A. Drive out fear
  - B. Create slogans, exhortations and numerical targets**
  - C. Institute a vigorous program of education and self-improvement
  - D. Create constancy of purpose

*Difficulty: Hard*  
*Learning Objective: 5*

56. (p. 32) Which of these is one of Demming's well-known points on quality?
- A. Create dependence on mass inspections to achieve quality
  - B. Award business on the measure of price tag
  - C. Breakdown barriers between departments**
  - D. Corporate transformation should be the responsibility of top management

*Difficulty: Hard*  
*Learning Objective: 5*



57. (p. 33) Whereas the \_\_\_\_\_ expresses an answer to the question "What business are we in?" a company \_\_\_\_\_ is sometimes developed to express the aspirations of the executive leadership.

- A.** Mission statement; vision statement
- B. Economic goals; self-concept
- C. Vision statement; mission statement
- D. Self-concept; economic goals

*Difficulty: Medium*  
*Learning Objective: 5*

58. (p. 33) Mission statement expresses an answer to which of these questions?

- A. How do we compete in this industry?
- B.** What business are we in?
- C. Who are our competitors?
- D. How do we meet the regulatory requirements?

*Difficulty: Easy*  
*Learning Objective: 5*

59. (p. 34) \_\_\_\_\_ represents a statement that presents a firm's strategic intent designed to focus the energies and resources of the company on achieving a desirable future.

- A. Mission statement
- B. Agency theory
- C. Adverse selection
- D.** Vision statement

*Difficulty: Easy*  
*Learning Objective: 5*

60. (p. 33) \_\_\_\_\_ represents a statement that is sometimes developed to express the aspirations of the executive leadership.

- A. Mission statement
- B. Agency theory
- C. Adverse selection
- D.** Vision statement

*Difficulty: Easy*

*Learning Objective: 5*

61. (p. 33) \_\_\_\_\_ presents the firm's strategic intent.

- A. Mission statement
- B. Agency theory
- C. Adverse selection
- D.** Vision statement

*Difficulty: Easy*

*Learning Objective: 5*

62. (p. 34) \_\_\_\_\_ is often a single sentence, designed to be memorable.

- A. Mission statement
- B. Agency theory
- C. Adverse selection
- D.** Vision statement

*Difficulty: Easy*

*Learning Objective: 5*

63. (p. 36) The strategic decision makers in the firm are responsible for:

- A.** The firm's mission
- B. Rewards
- C. Plant efficiency
- D. Daily operations

*Difficulty: Medium*  
*Learning Objective: 5*

64. (p. 36) Which group of strategic managers is responsible for overseeing the creation and accomplishment of the company mission?
- A. Front-line supervisors
  - B. Middle-managers
  - C. Board of directors**
  - D. Employees

*Difficulty: Medium*  
*Learning Objective: 6*

65. (p. 36) The strategic managers at the highest level of the organization:
- A. Review employee complaints
  - B. Declare the firm's sense of values**
  - C. Are appointed
  - D. Prepare budgets

*Difficulty: Medium*  
*Learning Objective: 6*

66. (p. 36) A company's Board of Directors is elected by its
- A. managers
  - B. stockholders**
  - C. customers
  - D. employees

*Difficulty: Medium*  
*Learning Objective: 6*

67. (p. 36) In overseeing the management of a firm, the board of directors operates as representatives of the
- A. Governmental agencies
  - B. Firms stockholders**
  - C. Firms employees
  - D. Top management

*Difficulty: Medium*  
*Learning Objective: 6*

68. (p. 36) Which of these is NOT a responsibility of the board of directors?
- A. To establish and update the company mission
  - B. To mandate company compliance with legal and ethical dictates
  - C. To determine the amount and timing of the dividends paid to stockholders
  - D.** To work under the guidance of the CEO

*Difficulty: Hard*  
*Learning Objective: 6*

69. (p. 36) The board of director's greatest impact on the behavior of a firm results from its
- A. Industry experience
  - B. Dependence on the CEO
  - C.** Determination of company mission
  - D. Mandate of company compliance with legal and ethical dictates

*Difficulty: Medium*  
*Learning Objective: 6*

70. (p. 38) A set of ideas on organizational control based on the belief that the separation of the ownership from management creates the potential for the wishes of owners to be ignored is known as
- A.** Agency theory
  - B. Adverse selection principle
  - C. Moral hazard problem
  - D. Self concept

*Difficulty: Easy*  
*Learning Objective: 7*

71. (p. 38) Whenever there is a separation of the owners (principals) and the managers (agents) of a firm, the potential exists for the wishes of the \_\_\_\_ to be ignored.

- A.** owners
- B. managers
- C. employees
- D. customers

*Difficulty: Easy*  
*Learning Objective: 7*

72. (p. 38) \_\_\_\_\_ delegate authority to \_\_\_\_\_

- A.** owners; managers
- B. managers; owners
- C. managers; suppliers
- D. customers; managers

*Difficulty: Easy*  
*Learning Objective: 7*

73. (p. 38) Agency problems arise when the interests of owners and managers

- A.** diverge
- B. converge
- C. are compatible
- D. are similar

*Difficulty: Easy*  
*Learning Objective: 7*

74. (p. 38) In general, \_\_\_\_ seek stock value maximization.

- A. Employees
- B. Hired-hand managers
- C.** Owners
- D. Suppliers and distributors

*Difficulty: Easy*  
*Learning Objective: 7*

75. (p. 38) The cost of agency problems and the cost of actions taken to minimize them are called

- A. Moral hazard problems
- B. Adverse selection
- C. Company creed
- D.** Agency costs

*Difficulty: Easy*

*Learning Objective: 7*

76. (p. 38) Which of these conditions is also called “self-interest combined with a smile?”

- A.** Moral hazard problems
- B. Adverse selection
- C. Self-concept
- D. Concern for quality

*Difficulty: Medium*

*Learning Objective: 7*

77. (p. 38) Which of these conditions is also called “shirking?”

- A.** Moral hazard problems
- B. Adverse selection
- C. Self-concept
- D. Concern for quality

*Difficulty: Medium*

*Learning Objective: 7*

78. (p. 40) When executives unrealistically assess acquisition targets' outlooks in order to increase the probability of increasing organizational size through their acquisition, this is an example of

- A.** Moral hazard problem
- B. Adverse selection
- C. Self-concept
- D. Concern for quality

*Difficulty: Medium*  
*Learning Objective: 7*

79. (p. 38) When executives presell products at year-end to trigger their annual bonuses even though the deep discounts that they must offer will threaten the price stability of their products for the upcoming year, this is an example of

- A.** Moral hazard problem
- B. Adverse selection
- C. Self-concept
- D. Concern for quality

*Difficulty: Medium*  
*Learning Objective: 7*

80. (p. 38) When owners have limited access to company information making executives free to pursue their own interests, it could lead to

- A.** Moral hazard problems
- B. Adverse selection
- C. Self-concept
- D. Concern for quality

*Difficulty: Medium*  
*Learning Objective: 7*

81. (p. 38) When executives manipulate personnel records to keep or acquire key company personnel, this is an example of

- A.** Moral hazard problem
- B. Adverse selection
- C. Self-concept
- D. Concern for quality

*Difficulty: Medium*  
*Learning Objective: 7*

82. (p. 39) An agency problem caused by the limited ability of stockholders to precisely determine the competencies and priorities of executives at the time they are hired refers to

- A. Self-concept
- B.** Adverse selection
- C. Moral hazard problem
- D. Concern for quality

*Difficulty: Medium*  
*Learning Objective: 7*

83. (p. 39) Which of these represent the most popular solution to moral dilemma and adverse selection problems?

- A.** To more closely align the owners and agents interests through the use of executive bonus plans
- B. To allow the managers to act more as hired-hands only
- C. To remove vision components from mission
- D. To ensure board of directors report and work for the CEO

*Difficulty: Hard*  
*Learning Objective: 7*

84. (p. 39) Which of the following is NOT a problem resulting from agency?

- A. Executive attempt to diversify their corporate risk
- B. Executives avoid risks
- C.** Executives pursue growth in company earnings rather than size
- D. Executives act to protect their status

*Difficulty: Hard*  
*Learning Objective: 7*



85. (p. 39) Managers' stature in the business community is commonly associated with company
- A. type
  - B. age
  - C. size**
  - D. growth

*Difficulty: Hard*  
*Learning Objective: 7*

86. (p. 40) Which of these represent a solution to the agency problem?
- A. Backloaded compensation for executives**
  - B. Separate the interests of the owners and agents
  - C. Minimize executive risk-taking
  - D. Focus performance measures on personal goals of executives

*Difficulty: Hard*  
*Learning Objective: 7*

87. (p. 40) Backloaded compensation refers to
- A. Board of directors getting back stock as compensation
  - B. Executives receiving handsome premium for superior future performance**
  - C. Suppliers getting bonuses for organization's performance
  - D. Managers getting bonuses for past performances

*Difficulty: Medium*  
*Learning Objective: 7*

## Essay Questions

88. Define mission statement. Describe the importance of developing an explicit mission statement.

Please refer to the discussion on "What is a Company Mission" on pages 23-24.

*Learning Objective: 1*

89. Briefly describe the process of defining the company mission for a specific business.

Please refer to the discussion on "Formulating a Mission" on page 24.

*Learning Objective: 1*

90. When a mission statement is redefined or revised, what components should be present? Explain.

Please refer to the discussion on "Formulating a Mission" on page 24.

*Learning Objective: 1*

91. Identify and briefly describe the three indispensable components of the mission statement.

Please refer to the discussion on "Basic Product or Service; Primary Market; Principle Technology" on pages 24-26.

*Learning Objective: 2*

92. What are the three economic goals that guide the strategic direction of business organizations? Explain each of them briefly.

Please refer to the discussion on "Company Goals: Survival; Growth; Profitability" on pages 26-27.

*Learning Objective: 3*

93. Differentiate between company philosophy and public image. Why should organizations care to have either or both of these in its mission?

Please refer to the discussion on "Company Philosophy" and "Public Image" on pages 27-30.

*Learning Objective: 4*

94. What is meant by company self-concept? Why is it an important mission statement component?

Please refer to the discussion titled "Company Self-Concept" on pages 30-31.

*Learning Objective: 4*

95. Identify and briefly explain the newest trends in mission components.

Please refer to the discussion on "Newest Trends in Mission Components" on pages 31-34.

*Learning Objective: 5*

96. How is a vision statement different from a mission statement?

Please refer to the discussion titled "Vision Statement" on pages 33-35.

*Learning Objective: 4*

97. Who are the board of directors? What are their major responsibilities?

Please refer to the discussion on "Board of Directors" on page 36.

*Learning Objective: 6*

98. Define agency theory. What are agency costs?

Please refer to the discussion on "Agency Theory" on page 38.

*Learning Objective: 7*

99. How do moral hazard and adverse selection cause agency problems?

Please refer to the discussion titled "How Agency Problems Occur" on pages 38-39.

*Learning Objective: 7*

100. Briefly describe the problems that can result from agency and what steps can be taken to resolve them.

Please refer to the discussion on "Problems that can Result from Agency" and "Solutions to the Agency Problem" on pages 39-40.

*Learning Objective: 7*