QUIZ CHAPTER 2(FINN3300)

**1. Which of the following objectives makes the most sense in an inefficient market where lenders are not fully protected from stockholder expropriation?**

 A. Maximize stockholder wealth

B. Maximize stock prices

C. Maximize bondholder wealth

D. Maximize firm value

**2. Which of the following is a clear and unambiguous example of managers putting their interests over stockholder interests?**

 A. Negotiating for a large compensation contract

B. Focusing on increasing the market share of the company

C. Paying greenmail to a bidder to avoid being taken over (in a hostile bid)

D. Acquiring another company

E. Paying a large dividend

**3. If you were a bondholder lending to a firm and you were worried that stockholders would take advantage of you, which of the following actions would concern you the most?**

A. A cut in the dividends paid to stockholders

B. A reduction in debt

C. Expansion into a risky new business

D. A new stock issue

E. Accumulation of cash in the company

 **4. In a publicly traded firm, there is often a conflict of interest between managers and stockholders and compensation contracts are designed to reduce this conflict. Which of the following contracts is most likely to induce to managers behave in the best interests of stockholders?**

A. A fixed salary

B.A bonus tied to a company's revenue growth

C.A bonus tied to a company's accounting profits

D. A stock option grant

E. Restricted stock in the company (restrictions are on trading)

F. A bonus tied to a company's bond rating

**5. Most decisions made by corporations create costs to 3ociety. Which of the following is the most efficient way to reduce these social costs? (Efficiency implies that the costs created for the non-guilty are minimized.)**

A. Make managers take ethics classes

B. Make it illegal to create social costs

C. Convince customers to stop buying the firm's products and investors to sell its stock

D. Sue companies that create costs for society

\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*

**List and describe two specific ways in which bondholders may react to protect themselves against being ripped off by stockholders**:

1.Debt covenants that restrict the firm investment, divided and additional leverage policies.

2.Become shareholders (equity stake) via convertible bonds (at the option of the bondholder)

3.Puttable bonds