QUIZ CHAPTER 2 (FINN3300)

**1) You are a stockholder in a firm that is planning to make significant acquisition. Which of the following compositions for the board of directors for your firm (the acquirer) is most likely to protect you against overpayment?**

A. Large board, with many insiders and the CEO as chairman

B. Small board, with many insiders and the CEO as chairman

C. Large board, composed mostly of outsiders, with an independent chairman

D.Small board, composed mostly of outsiders, with an independent chairman

E. Large board, with many insiders, with an independent chairman

F. Small board, with many insiders, with an independent chairman

**2) One concem that banks have when they lend to companies is that their interests are different from those of the stockholders running these companies. If you move to a system where lenders' interests are unprotected, which of the following would you expect to observe on lending and interest rates?**

A. No effect on either borrowing or interest rates

B. More money will be lent at lower interest rates

C.Less money will be lent at lower interest rates

D. More money will be lent at higher interest rates

E. Less money will be lent at higher interest rates

**3) The state passes a law restricting hostile takeovers.**

A. Management Power increases

B. Stakeholder Power increases

C. No Effect

**4) The firm decides to expand its board of directors from 11 members to 22 members and allows the CEO to pick the additional directors.**

A. Management Power increases

B. Stockholder power increases

C. No Effect

**5) Which of the following is NOT an example of bondholders being ripped off by stockholders?**

A. the firm invest in riskier projects than it has in the past

B. the firm Significantly increases its leverage or debt ratio

C. the firm increases its dividend payment

D. the firm increases its cash position and its current ratio

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**In reality, the Bondholders of the firm are not fully protected expropriation by stockholders. List and describe two ways how bondholders are being taken advantage of?**

**1.Investing in risky projects**

**2.Additional borrowing 🡪 probability of default increases (shareholder’s wealth increases at the expense of bondholders), when debt ratio increases, bond rating drops, the price of bonds fall to reflect the higher default risk.**

**3.Additional divided payment🡪 cash available to repay debt decreases🡪Debt is more risky. stock price (shareholder wealth tend to increase) while bond prices decreases (Bondholder’s wealth decreases)**