

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 1) BRICs is a term used in international finance to represent assets that are considered to be inexpensive and sturdy, but fundamentally unsound and and incapable of coping with the upheavals now apparent in international financial markets. 1) _____

- 2) Multinational enterprises (MNEs) are firms, both for profit companies and not-for-profit organizations, that have operations in more than one country, and conduct their business through foreign subsidiaries, branches, or joint ventures with host country firms. 2) _____

- 3) Ownership, control, and governance changes radically across the world. The publicly traded company is not the dominant global business organization—the privately held or family-owned business is the prevalent structure—and their goals and measures of performance differ dramatically. 3) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 4) A well-established, large U.S.-based MNE will probably NOT be able to overcome which of the following obstacles to maximizing firm value? 4) _____
 - A) an open market place
 - B) access to capital
 - C) high quality strategic management
 - D) none of the above

- 5) A well-established, large China-based MNE will probably be most adversely affected by which of the following elements of firm value? 5) _____
 - A) high-quality strategic management
 - B) access to qualified labor pool
 - C) access to capital
 - D) an open marketplace

- 6) A well-established, large, Brazil-based MNE will probably be most adversely affected by which of the following elements of firm value? 6) _____
 - A) access to capital
 - B) an open marketplace
 - C) high-quality strategic management
 - D) access to qualified labor pool

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- 7) Comparative advantage is one of the underlying principles driving the growth of global business. 7) _____

- 8) Your authors suggest that one way to characterize the global financial marketplace is through its assets, institutions, and linkages. 8) _____

- 9) Eurocurrencies are domestic currencies of one country on deposit in a second country. 9) _____

- 10) A eurodollar deposit is a demand deposit. 10) _____

- 11) Eurocurrency markets serve two valuable purposes: 1) Eurocurrency deposits are an efficient and convenient money market device for holding excess corporate liquidity; and 2) the Eurocurrency market is a major source of short-term bank loans to finance corporate working capital needs, including the financing of imports and exports. 11) _____
- 12) The key factor attracting both depositors and borrowers to the Eurocurrency loan market is the narrow interest rate spread within that market. 12) _____
- 13) The Eurocurrency market continues to thrive because it is a large international money market relatively free from governmental regulation and interference. Recent events may lead to greater regulation. 13) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 14) List and explain three strategic motives why firms become multinationals and give an example of each.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 15) The theory that suggests specialization by country can increase worldwide production is: 15) _____
 A) the theory of comparative advantage.
 B) the theory of foreign direct investment.
 C) the theory of working capital management.
 D) the international Fisher effect.
- 16) Which of the following is NOT a reason governments interfere with comparative advantage? 16) _____
 A) Governments attempt to achieve full employment.
 B) national self-sufficiency in defense-related industries
 C) Governments promote economic development.
 D) All are reasons governments interfere with comparative advantage.
- 17) Which of the following factors of production DO NOT flow freely between countries? 17) _____
 A) (non-military) technology
 B) raw materials
 C) financial capital
 D) All of the above factors of production flow freely among countries.
- 18) Which of the following would NOT be a way to implement comparative advantage? 18) _____
 A) IBM exports computers to Egypt.
 B) Water of the greatest purity is obtained from wells in Oregon, bottled, and exported worldwide.
 C) Computer hardware is designed in the United States but manufactured and assembled in Korea.
 D) All of the above are examples of ways to implement comparative advantage.

- 19) Of the following, which would NOT be considered a way that government interferes with comparative advantage? 19) _____
- A) tariffs
B) quotas
C) managerial skills
D) other non-tariff restrictions

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- 20) The theory of comparative advantage owes its origins to Ben Bernanke as described in his book *The Wealth of Bankers*. 20) _____
- 21) International trade might have approached the comparative advantage model in the 19th century, and it does so even more today. 21) _____
- 22) Comparative advantage shifts over time as less developed countries become more developed and realize their latent opportunities. 22) _____
- 23) Comparative advantage in the 21st century is based more on services and their cross border facilitation by telecommunications and the Internet. 23) _____
- 24) Comparative advantage was once the cornerstone of international trade theory, but today it is archaic, simplistic, and irrelevant for explaining investment choices made by MNEs. 24) _____
- 25) When discussing comparative advantage, it is apparent that today at least two of the factors of production, capital and technology, now flow directly and easily between countries, rather than only indirectly through traded goods and services. 25) _____
- 26) It would be safe to make the statement that modern telecommunications now take business activities to labor rather than moving labor to the places of business. 26) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 27) Which of the following domestic financial instruments have NOT been modified for use in international financial management? 27) _____
- A) currency options and futures
B) letters of credit
C) interest rate and currency swaps
D) All of the above are domestic financial instruments that have also been modified for use in international financial markets.

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- 28) MNEs must modify finance theories like cost of capital and capital budgeting because of foreign complexities. 28) _____
- 29) Relative to MNEs, purely domestic firms tend to have GREATER political risk. 29) _____

- 30) Domestic firms tend to make GREATER use of financial derivatives than MNEs because they can bear the greater risk presented by these financial instruments. 30) _____
- 31) Because countries have different financial regulations and customs, it is common for MNEs to apply their domestic rules and regulations when doing financial business in a foreign country. 31) _____
- 32) A number of financial instruments that are used in domestic financial management have been modified for use in international financial management. Examples are foreign currency options and futures, interest rate and currency swaps, and letters of credit. 32) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 33) In determining why a firm becomes multinational there are many reasons. One reason is that the firm is a market seeker. Which of the following is NOT a reason why market-seeking firms produce in foreign countries? 33) _____
- A) political safety and small likelihood of government expropriation of assets
 - B) satisfaction of local demand in the foreign country
 - C) satisfaction of local demand in the domestic markets
 - D) All of the above are market-seeking activities.
- 34) _____ investments are designed to promote and enhance the growth and profitability of the firm. _____ investments are designed to deny those same opportunities to the firm's competitors. 34) _____
- A) Conservative; Aggressive
 - B) Aggressive; Proactive
 - C) Defensive; Proactive
 - D) Proactive; Defensive

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- 35) For firms competing in a world characterized by oligopolistic competition, strategic motives can be subdivided into proactive and defensive investments. 35) _____
- 36) Defensive measures are designed to enhance growth and profitability of the firm itself. 36) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 37) The phase of the globalization process characterized by imports from foreign suppliers and exports to foreign buyers is called the: 37) _____
- A) international trade phase.
 - B) multinational phase.
 - C) domestic phase.
 - D) import-export banking phase.

- 38) The authors describe the multinational phase of globalization for a firm as one characterized by the: 38) _____
- A) potential for international competitors or suppliers even though all accounts are with domestic firms and are denominated in dollars.
 - B) requirement that all employees be multilingual.
 - C) imports from foreign suppliers and exports to foreign buyers.
 - D) ownership of assets and enterprises in foreign countries.
- 39) A firm in the International Trade Phase of Globalization: 39) _____
- A) receives all foreign receipts in foreign currency units and makes all foreign payments in domestic currency units.
 - B) makes all foreign payments in foreign currency units and all foreign receipts in domestic currency units.
 - C) bears direct foreign exchange risk.
 - D) none of the above
- 40) Of the following, which was NOT mentioned by the authors as an increase in the demands of financial management services due to increased globalization by the firm? 40) _____
- A) evaluation of the credit quality of foreign buyers and sellers
 - B) evaluation of foreign exchange risk
 - C) foreign consumer method of payment preferences
 - D) credit risk management
- 41) Of the following, which was NOT mentioned by the authors as an increase in the demands of financial management services due to increased globalization by the firm? 41) _____
- A) evaluation of foreign exchange risk
 - B) credit risk management
 - C) evaluation of the credit quality of foreign buyers and sellers
 - D) foreign consumer method of payment preferences
- 42) The authors describe the multinational phase of globalization for a firm as one characterized by the: 42) _____
- A) imports from foreign suppliers and exports to foreign buyers.
 - B) requirement that all employees be multilingual.
 - C) potential for international competitors or suppliers even though all accounts are with domestic firms and are denominated in dollars.
 - D) ownership of assets and enterprises in foreign countries.
- 43) The twin agency problems limiting financial globalization are caused by these two groups acting in their own self-interests rather than the interests of the firm. 43) _____
- A) corporate insiders and attorneys
 - B) attorneys and unsavory customs officials
 - C) corporate insiders and rulers of sovereign states
 - D) rulers of sovereign states and unsavory customs officials

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- 44) Typically, a firm in its domestic stage of globalization has all financial transactions in its domestic currency. 44) _____
- 45) Typically, a "greenfield" investment abroad is considered a greater foreign investment having a greater foreign presence than a joint venture with a foreign firm. 45) _____
- 46) The authors argue that financial inefficiency caused by influential insiders may prove to be an increasingly troublesome barrier to international finance. 46) _____
- 47) The authors describe a process for development of a MNE that begins with a *purely domestic phase*, followed by the *multinational phase*, and topping out with the *international trade phase*. 47) _____
- 48) Today it is widely assumed that there are NO LIMITS to financial globalization. 48) _____
- 49) The growth in the influence and self-enrichment of organizational insiders is seen as an impediment to the growth of financial globalization in general. 49) _____
- 50) The actions of corporate insiders and the actions of rulers of sovereign states are both agency costs that act as an impediment to the growth of globalization. 50) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 51) Foreign stock markets are frequently characterized by controlling shareholders for the individual publicly traded firms. Which of the following is NOT identified by the authors as typical controlling shareholders? 51) _____
- A) family (such as in France)
 - B) institutions (such as banks in Germany)
 - C) the government (for example, privatized utilities)
 - D) All of the above were identified by the authors as controlling shareholders.
- 52) Which of the following is NOT typically associated with the *public ownership* of business organizations? 52) _____
- A) the government
 - B) the state
 - C) families
 - D) civil society
- 53) Which of the following is NOT typically associated with the *private ownership* of business organizations? 53) _____
- A) individuals
 - B) publicly traded, widely-held organizations
 - C) the government
 - D) families

- 54) *State Owned Enterprises* (SOEs): 54) _____
 A) are the dominant form of business organization in some countries.
 B) are a form of public ownership.
 C) are created for commercial activities rather than civil or social activities.
 D) are all of the above.
- 55) The problems that may arise due to the separation of ownership and management in large business organizations is know as: 55) _____
 A) the agency problem. B) separation anxiety.
 C) corporate disconnect theory. D) none of the above
- 56) Privatization is a term used to describe: 56) _____
 A) firms that are purchased by the government.
 B) non-public meetings held by members of interlocking directorates.
 C) government operations that are purchased by corporations and other investors.
 D) firms that do not use publicly available debt.

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- 57) In the U.S. and U.K. stock markets are characterized by ownership of firms concentrated in the hands of a few controlling shareholders. In contrast, the rest of the world tends to have more widespread ownership of shares. 57) _____
- 58) *State Owned Enterprises* (SOEs) by their very name cannot be traded on stock exchanges because they are government owned. 58) _____
- 59) In recent years the trend has been for markets to increasing focus on the shareholder wealth form of wealth maximization. 59) _____
- 60) Non-Anglo-American markets are dominated by the "one-vote-one-share" rule. 60) _____
- 61) According to recent research, family-owned firms in some highly-developed economies typically outperform publicly-owned firms. 61) _____

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 62) What are the most important distinctions that make *state owned enterprises* (SOEs) different from other forms of government organizations? 62) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 63) "Maximize corporate wealth": 63) _____
A) has a broader definition than just financial wealth.
B) is the primary objective of the non-Anglo-American model of management.
C) as a management objective treats shareholders on a par with other corporate stakeholders such as creditors, labor, and local community.
D) all of the above
- 64) The Shareholder Wealth Maximization Model (SWM): 64) _____
A) combines the interests and inputs of shareholders, creditors, management, employees, and society.
B) clearly places shareholders as the primary stakeholder.
C) is being usurped by the Stakeholder Capitalism Model as those types of MNEs dominate their global industry segments.
D) is the dominant form of corporate management in the European-Japanese governance system.
- 65) The Stakeholder Capitalism Model (SCM): 65) _____
A) is the Anglo-American model of corporate governance.
B) clearly places shareholders as the primary stakeholder.
C) combines the interests and inputs of shareholders, creditors, management, employees, and society.
D) has financial profit as its goal and is often termed impatient capital.
- 66) In the Anglo-American model of corporate governance, the primary goal of management is to: 66) _____
A) maximize shareholder wealth. B) minimize costs.
C) minimize risk. D) maximize the wealth of all stakeholders.
- 67) In finance, an efficient market is one in which: 67) _____
A) prices are assumed to be correct.
B) prices are the best allocators of capital in the macro economy.
C) prices adjust quickly and accurately to new information.
D) all of the above
- 68) Systematic risk can be defined as: 68) _____
A) the risk of the individual security.
B) the risk that can be systematically diversified away.
C) the total risk to the firm.
D) the risk of the market in general.

- 69) Unsystematic risk can be defined as: 69) _____
A) the added risk that a firm's shares bring to a diversified portfolio.
B) the total risk to the firm.
C) the risk of the individual security.
D) the risk of the market in general.
- 70) The study of how shareholders can motivate management to accept the prescriptions of the shareholder wealth maximization model is called: 70) _____
A) market efficiency. B) the SWM model.
C) the SCM model. D) agency theory.
- 71) Under the Shareholder Wealth Maximization Model (SWM) of corporate governance, poor firm performance is likely to be faced with all but which of the following? 71) _____
A) shareholder activism to attempt a change in current management
B) prison time for executive management
C) as a maximum threat, initiation of a corporate takeover
D) sale of shares by disgruntled current shareholders
- 72) Which of the following is a reason why managers act to maximize shareholder wealth in Anglo-American markets? 72) _____
A) the market for corporate control that allows for outside takeover of the firm
B) the use of stock options to align the goals of shareholders and managers
C) performance based compensation for executive management
D) all of the above
- 73) Which of the following is NOT true regarding the stakeholder capitalism model? 73) _____
A) Labor unions are more powerful than in the Anglo-American markets.
B) Banks and other financial institutions are less important creditors than securities markets.
C) Governments interfere more in the marketplace to protect important stakeholder groups.
D) All of the above are TRUE.
- 74) The stakeholder capitalism model: 74) _____
A) typically avoids the flaw of impatient capital.
B) may leave management without a clear signal about tradeoffs among the several stakeholders.
C) tries to meet the desires of multiple stakeholders.
D) all of the above
- 75) Which of the following is generally NOT considered to be a viable operational goal for a firm? 75) _____
A) maintaining a strong local currency
B) minimization of the firm's effective global tax burden
C) maximization of after-tax income
D) correct positioning of the firm's income, cash flows and available funds as to country and currency

- 76) Which of the following operational goals for the international firm may be incompatible with the others? 76) _____
- A) minimization of the firm's effective global tax burden
 - B) maintaining a strong local currency
 - C) maximization of after-tax income
 - D) Each of these goals may be incompatible with one or more of the others.
- 77) The primary operational goal for the firm is to: 77) _____
- A) maximize after-tax profits in each country where the firm is operating.
 - B) maximize the total risk to the firm.
 - C) minimize the total financial risk to the firm.
 - D) maximize the consolidated after-tax profits of the firm.
- 78) Which of the following broad topics is NOT identified as an area to be established as good corporate governance practice by the Organization for Economic Cooperation and Development (OECD)? 78) _____
- A) the proper role of stakeholders in the governance of the firm
 - B) disclosure and transparency
 - C) protect the rights of shareholders
 - D) All of the above should be a concern of good corporate governance.
- 79) The relationship among stakeholders used to determine and control the strategic direction and performance of an organization is termed: 79) _____
- A) capital structure.
 - B) working capital management.
 - C) corporate governance.
 - D) Anglo-American activism.
- 80) 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. 80) _____
- A) Equity markets; executive management
 - B) Executive management; auditors
 - C) Debt markets; board of directors
 - D) Auditors; regulators
- 81) Which of the following is NOT commonly associated with a government affiliated form of corporate governance regime? 81) _____
- A) lack of transparency
 - B) no minority influence
 - C) state ownership of enterprise
 - D) All are associated with this type of corporate governance regime.
- 82) Generally speaking, which of the following is NOT considered an important factor in the composition and control of corporate boards of directors? 82) _____
- A) the composition of the compensation committee
 - B) the total number of directors on the board
 - C) the number of insider vs outside directors
 - D) All of the above are important factors of board composition.

- 83) Signed into law on July 30, 2002, the _____ Act requires CEOs of publicly traded companies to vouch for the veracity of the firm's published financial statements. 83) _____
 A) Smoot-Hawley B) McCain-Merrill
 C) Sarbanes-Oxley D) Humphrey-Hawkins
- 84) The Sarbanes-Oxley Act, passed by the U.S. Congress in July 2002, was designed to: 84) _____
 A) reform corporate governance.
 B) limit trade with countries deemed lenient on terrorism.
 C) limit the Federal Reserve Board's ability to engage in the buying and selling of gold.
 D) reinstitute heavy tariffs on international trade.
- 85) Anglo-American markets is a term used to describe business markets in: 85) _____
 A) North, Central, and South America.
 B) the United States, France, Britain, and Germany.
 C) the United States, United Kingdom, Canada, Australia and New Zealand.
 D) the United States, Canada, and Western Europe.
- 86) The deliberation of the of the process demonstrated in the European-Japanese system of corporate governance has sometimes been termed: 86) _____
 A) communism. B) impatient capital.
 C) patient capital. D) socialism.
- 87) With shareholder wealth maximization as the manager's goal, capital may be termed: 87) _____
 A) bought. B) impatient. C) borrowed. D) patient.
- 88) Which of the following is NOT an important concept when distinguishing between international and domestic financial management? 88) _____
 A) political risk
 B) culture, history, and institutions
 C) corporate governance
 D) All of the above are important distinguishing concepts.
- 89) The Board of Directors: 89) _____
 A) are not subject to the external forces of the marketplace.
 B) is appointed by the Securities and Exchange Commission (SEC).
 C) consists exclusively of the officers of the corporation.
 D) is the legal body which is accountable for the governance of the corporation.
- 90) If share price rises from \$12 to \$15 per share, and pays a dividend of \$1 per share, what was the rate of return to shareholders? 90) _____
 A) 33.33% B) -13.33% C) 16.67% D) 26.67%

- 91) PolyProduction Inc. has two classes of common stock. Class A has 5 million shares with 10 votes per share. Class B has 5 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. 91) _____
 A) 90.91%; 50.00% B) 50.00%; 50.00%
 C) 90.91%; 90.91% D) 83.33%; 33.33%
- 92) The number of publicly traded firms: 92) _____
 A) peaked in the U.S. in 1996.
 B) increased significantly in 2009 as a result of the international financial crisis.
 C) peaked worldwide in 1996.
 D) all of the above
- 93) Which of the following is NOT a possible and appropriate response by shareholders dissatisfied with existing firm management of a publicly traded firm? 93) _____
 A) Shareholders could remain quietly disgruntled.
 B) Shareholders, perhaps with the help of others, could attempt to initiate a takeover.
 C) Shareholders could sell their shares of stock.
 D) All of these responses may be possible and appropriate.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 94) The stakeholder capitalism model (SCM) holds that total risk (operational and financial) is more important than just systematic risk. 94) _____
- 95) In recent years the trend has been for markets to increasing focus on the shareholder wealth form of wealth maximization. 95) _____
- 96) Patient Capitalism is characterized by short-term focus by both management and investors. 96) _____
- 97) Agency theory states that unsystematic risk can be eliminated through diversification. 97) _____
- 98) The stakeholder capitalism model does not assume that equity markets are either efficient or inefficient. 98) _____
- 99) The stakeholder capitalism model assumes that only systematic risk "counts" or is a prime concern for management. 99) _____
- 100) Dividend yield is the change in the share price of stock as traded in the public equity markets. 100) _____
- 101) Regarding comparative corporate governance regimes: Bank-based regimes characterized by government influence in bank lending and a lack of transparency is often found in countries such as Korea and Germany. 101) _____

- 102) Investor protection is typically better in countries with codified civil law (the Code Napoleon) than in countries with a legal system based in English common law. 102) _____
- 103) The relatively low cost of compliance with the Sarbanes-Oxley Act (SOX) has been a surprising benefit of the act. 103) _____
- 104) According to recent research, family-owned firms in some highly-developed economies typically outperform publicly-owned firms. 104) _____
- 105) The goal of all international corporations is to maximize shareholder wealth. 105) _____
- 106) Systematic risk can be eliminated through portfolio diversification. 106) _____
- 107) According to the authors, dual classes of voting stock are the norm in non-Anglo-American markets. 107) _____
- 108) A recent study shows that privately held firms use less financial leverage and enjoy lower costs of debt than publicly traded firms. 108) _____
- 109) U.S. listings of publicly traded firms as a percentage of worldwide listings of such firms INCREASED from 11% in 1996 to approximately 33% in 2010. 109) _____
- 110) Having Anglo-Americans as members of the board of directors of a non-Anglo-American firm signals poor corporate governance in the firm. 110) _____
- 111) In the *stakeholder capitalism model (SCM)* the assumption of market efficiency is absolutely critical. 111) _____

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 112) 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. 112) _____
- 113) Define patient and impatient capitalism and discuss how each may lead to different decision-making in the shareholder wealth maximization model. 113) _____

Answer Key

Testname: UNTITLED1

- 1) FALSE
- 2) TRUE
- 3) TRUE
- 4) D
- 5) D
- 6) A
- 7) TRUE
- 8) TRUE
- 9) TRUE
- 10) FALSE
- 11) TRUE
- 12) TRUE
- 13) TRUE
- 14) The authors provide 5 strategic motives for firms to become multinationals: market seekers, raw materials seekers, production efficiency seekers, knowledge seekers, and political safety seekers. Market seekers are looking for more consumers for their products such as automobiles or steel. Knowledge seekers may be looking for an educated work force similar to the way firms seeking R and D set up shop in university towns. Raw materials seekers may be after commodities such as oil or copper. Production efficiencies may occur in countries like Mexico that have capable workers and lower wages. Political safety seekers are looking for countries that will not expropriate their assets, so they may stay away from countries that in the past have engaged in such activities.
- 15) A
- 16) D
- 17) B
- 18) D
- 19) C
- 20) FALSE
- 21) FALSE
- 22) TRUE
- 23) TRUE
- 24) FALSE
- 25) TRUE
- 26) TRUE
- 27) D
- 28) TRUE
- 29) FALSE
- 30) FALSE
- 31) FALSE
- 32) TRUE
- 33) A
- 34) D
- 35) TRUE
- 36) FALSE
- 37) A

Answer Key

Testname: UNTITLED1

- 38) D
- 39) C
- 40) C
- 41) D
- 42) D
- 43) C
- 44) TRUE
- 45) TRUE
- 46) TRUE
- 47) FALSE
- 48) FALSE
- 49) TRUE
- 50) FALSE
- 51) D
- 52) C
- 53) C
- 54) D
- 55) A
- 56) C
- 57) FALSE
- 58) FALSE
- 59) TRUE
- 60) FALSE
- 61) TRUE
- 62) *State owned enterprises* are created distinctly for the purpose of commercial activities, rather than the multitude of other social, civil, and regulatory activities of government. SOEs are today, in many countries, the dominant form of business entity.
- 63) D
- 64) B
- 65) C
- 66) A
- 67) D
- 68) D
- 69) C
- 70) D
- 71) B
- 72) D
- 73) B
- 74) D
- 75) A
- 76) D
- 77) D
- 78) D

Answer Key

Testname: UNTITLED1

- 79) C
- 80) B
- 81) D
- 82) D
- 83) C
- 84) A
- 85) C
- 86) C
- 87) B
- 88) D
- 89) D
- 90) A
- 91) A
- 92) A
- 93) D
- 94) FALSE
- 95) TRUE
- 96) FALSE
- 97) FALSE
- 98) TRUE
- 99) FALSE
- 100) FALSE
- 101) TRUE
- 102) FALSE
- 103) FALSE
- 104) TRUE
- 105) FALSE
- 106) FALSE
- 107) TRUE
- 108) TRUE
- 109) FALSE
- 110) FALSE
- 111) FALSE
- 112) 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.

Answer Key

Testname: UNTITLED1

- 113) Patient capitalism may be defined as a focus on long-term shareholder wealth maximization and is often associated with management focusing on long term investments with less emphasis placed on short-term or trendy objectives. On the other hand, impatient capitalism could be described as a destructive focus on the short term by both management and investors. These differences in the time horizon could lead to different and perhaps inferior decisions by existing management and ultimately be costly to the shareholders.