

Review Questions

All Review Questions are available in MyFinanceLab.

1-1. What are some of the problems involved in implementing the goal of maximization of shareholder wealth?

1-2. Firms often involve themselves in projects that do not result directly in profits. For example, Apple, which we featured in the chapter introduction, donated \$50 million to Stanford University hospitals and another \$50 million to the African aid organization (Product) RED, a charity fighting against AIDS, tuberculosis, and malaria. Do these projects contradict the goal of maximization of shareholder wealth? Why or why not?

1-3. What is the relationship between financial decision making and risk and return? Would all financial managers view risk–return trade-offs similarly?

1-4. What is the agency problem, and how might it impact the goal of maximization of shareholder wealth?

1-5. Define (a) sole proprietorship, (b) partnership, and (c) corporation.

1-6. Identify the primary characteristics of each form of legal business organization.

1-7. Using the following criteria, specify the legal form of business that is favored: (a) organizational requirements and costs, (b) liability of the owners, (c) the continuity of the business, (d) the transferability of ownership, (e) management control and regulations, (f) the ability to raise capital, and (g) income taxes.

1-8. There are a lot of great business majors. Check out the Careers in Business website at www.careers-in-business.com. It covers not only finance but also marketing, accounting, and management. Find out about and provide a short write-up describing the opportunities investment banking and financial planning offer.

1-9. Like it or not, ethical problems seem to crop up all the time in finance. Some of the worst financial scandals are examined at <http://projects.exeter.ac.uk/RDavies/arian/scandals/classic.html>. Take a look at the write-ups dealing with “The Credit Crunch,” “The Dot-Com Bubble and Investment Banks,” and “Bernard L. Madoff Investment Securities.” Provide a short write-up on these events.

1-10. We know that if a corporation is to maximize shareholder wealth, the interests of the managers and the shareholders must be aligned. The simplest way to align these interests is to structure executive compensation packages appropriately to encourage managers to act in the best interests of shareholders through stock and option awards. However, has executive compensation gotten out of control? Take a look at the Executive Pay Watch website at www.aflcio.org/corporatewatch/pay-watch to see to whom top salaries have gone (click on “100 Highest” after scrolling down to the very bottom of the page). What are the most recent total compensation packages for the head of Oracle (ORCL), CBS Corporation (CBS), Disney (DIS), and ExxonMobil (XOM)?