

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

Sometimes managers don't always act in the best interest of the shareholders' wealth. This causes a separation between the owners of the shareholders and the management of the firm. Which is caused Agency problem and happens when the interest of the managers isn't aligned with the owners.

**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 mil 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?**

No, because maximizing shareholder's wealth is a long-term goal. Charitable actions help to raise publicity and goodwill towards the company which can lead to increased future revenues.

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

Agency problems occur when the interests of managers do not align with the interests of shareholders. Maximization of shareholders wealth cannot occur when managers are acting in their own interests.

**1-5: Define, Sole proprietorship, partnership and corporation**

**Sole Proprietorship:** a business owned by a single individual who maintains complete title to the assets and is also personally liable for all indebtedness incurred.

**Partnership:** an association of two or more individuals coming together as co-owners for the purpose of operating a business. The partnership is similar to the sole proprietorship, except that the partnership has multiple owners.

**Corporation:** a legal entity functioning separate and apart from its owners. It can individually sue and be sued, purchase, sell, or own property, and be subject to criminal punishment for crimes.

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

1. Sole Proprietorship: Easy entry, low-start up costs, unlimited liability, no continuity.
2. Partnership: Low-start up costs, partnership agreement, possibly a combination of limited and unlimited partners, unlimited liability, no continuity.