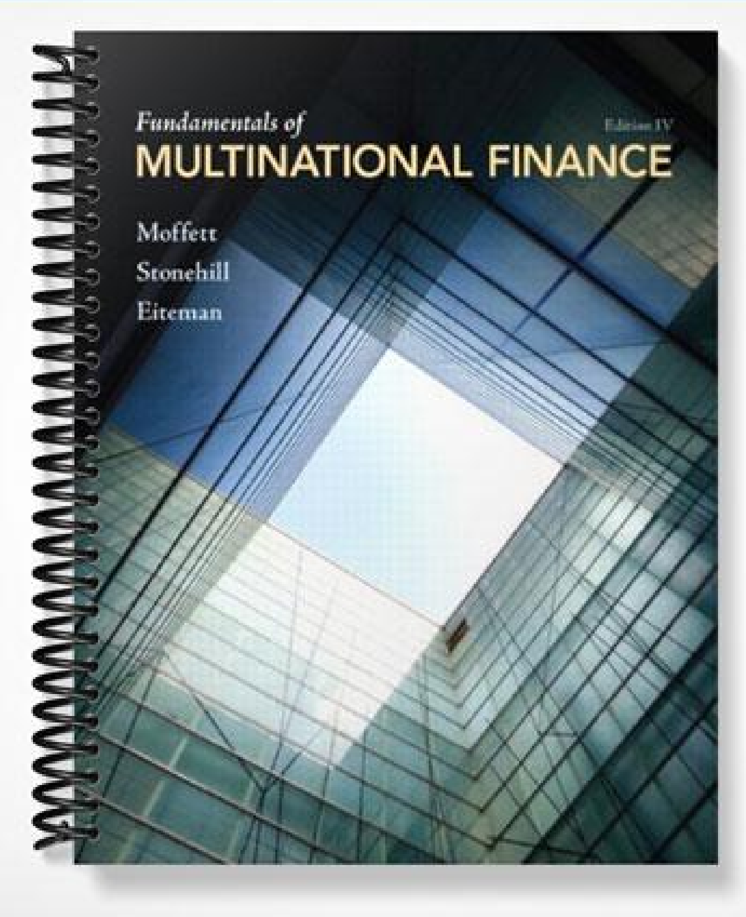
TEST BANK


Fundamentals of
Edition IV
MULTINATIONAL FINANCE
Moffett
Stonehill
Eiteman

Fundamentals of Multinational Finance, 4e **(Moffett)**
Chapter 2 Financial Goals and Corporate Governance

<u>Multiple Choice and True/False Questions</u>

2.1 Who Owns the Business?

1) The authors suggest that the most likely progression of ownership goes from
A) 100% privately held, to 80% privately held, to 40% privately held, to 0% privately held.
B) 0% privately held, to 40% privately held, to 80% privately held, to 100% privately held.
C) privately held firms stay private, and publicly traded firms stay public.
D) none of the above.
Answer: A
Diff: 1
Topic: 2.1 Business Ownership
Skill: Recognition

2) Which of the following do NOT enhance control of publicly traded firms by select groups of shareholders?
A) dual classes of stock with differential voting rights
B) simultaneous election of members of the board of directors
C) interlocking directorates
D) takeover safeguards
Answer: B
Diff: 1
Topic: 2.1 Business Ownership
Skill: Conceptual

3) According to an article in the French newspaper *Le Figaro*, French firms that are mostly privately held are out-performed by firms that are more widely held public firms. Note: In this context performance is measured by return to the owners.
Answer: FALSE
Diff: 1
Topic: 2.1 Business Ownership
Skill: Recognition

4) It may be (is probably the case) that family owned businesses the world over out-perform their publicly traded brethren. Which of these factors is attributed to family owned firm dominance over public firms?
A) a focus on the long-term
B) they stick to their core business
C) fewer agency problems (manager-owner conflicts)
D) all of the above
Answer: D
Diff: 1
Topic: 2.1 Business Ownership
Skill: Conceptual

5) Anglo-American equity markets are characterized by widespread ownership of shares. In other parts of the world ownership is often dominated by consortiums of controlling shareholders. Which of the following is NOT an example of a common consortium of controlling shareholders?
A) Japanese keiretsus
B) South Korean chaebols
C) U.S. labor unions
D) All of the above are common controlling consortiums.
Answer: C
Diff: 1
Topic: 2.1 Business Ownership
Skill: Recognition

6) If share price falls from $15 to $12 per share, and pays a dividend of $1 per share, what was the rate of return to shareholders?
A) 13.33%
B) -13.33%
C) 16.67%
D) -16.67%
Answer: B
Diff: 2
Topic: 2.1 Business Ownership
Skill: Analytical

7) Benny Simpson is considering an investment in Pontoon Industries Inc. He anticipates a dividend of $0.50 next year and an increase in the stock price from the current price of $18.25 per share to $20 per share. If he plans to hold the stock for one year, should Mr Simpson buy the stock if he requires an annual return of 12% on similar-risk investments?
A) no, because his anticipated return of 2.74% is exceeded his required return of 12%
B) no, because his anticipated return of 9.59% is exceeded his required return of 12%
C) yes because his anticipated return of 12.33% exceeds his required return of 12%
D) There is not enough information to answer this question.
Answer: C
Diff: 2
Topic: 2.1 Business Ownership
Skill: Analytical

8) Mary Chalmers , who lives in Minnesota, purchased 100 shares of Delton Cables, a diversified machinery company headquartered in Germany. She purchased the stock in January of 2011 for €62.50 per share when the exchange rate was at $1.330/€. Today, the stock is trading for €68.00 per share and the exchange rate is $1.48/€. If Mary sells her shares today, what is the total return on her investment?
A) 11.28%
B) 20.08%
C) 8.80%
D) 26.41%
Answer: B
Diff: 2
Topic: 2.1 Business Ownership

Skill: Analytical

9) Mary Chalmers , who lives in Minnesota, purchased 100 shares of Delton Cables, a diversified machinery company headquartered in Germany. She purchased the stock in January of 2011 for €62.50 per share when the exchange rate was at $1.330/€. Today, the stock is trading for €68.00 per share and the exchange rate is $1.48/€. If Mary sells her shares today, what is the return on her investment due to changes in the exchange rate?
A) 11.28%
B) 20.08%
C) 8.80%
D) 26.41%
Answer: A
Diff: 2
Topic: 2.1 Business Ownership
Skill: Analytical

10) Mary Chalmers , who lives in Minnesota, purchased 100 shares of Delton Cables, a diversified machinery company headquartered in Germany. She purchased the stock in January of 2011 for €62.50 per share when the exchange rate was at $1.330/€. Today, the stock is trading for €68.00 per share and the exchange rate is $1.48/€. If Mary sells her shares today, what is the return on her investment due to price appreciation of the stock?
A) 11.28%
B) 20.08%
C) 8.80%
D) 26.41%
Answer: C
Diff: 2
Topic: 2.1 Business Ownership
Skill: Analytical

2.2 What is the Goal of Management?

1) The shareholder wealth maximization model assumes as a universal truth that the market is efficient.
Answer: TRUE
Diff: 1
Topic: 2.2 Goal of Management
Skill: Conceptual

2) What are frequently taught as universal truths in a finance classroom may in fact just be cultural norms.
Answer: TRUE
Diff: 1
Topic: 2.2 Goal of Management
Skill: Conceptual

3) During the 1990s, rapidly increasing stock prices exposed a flaw in the shareholder wealth maximization model, the seeking of short-term value maximization. Such behavior by management is characterized by all but which of the following?
A) a focus on quarterly earnings
B) overly generous use of stock options to motivate management
C) improper reporting of earnings by management
D) All of the above may be characteristics of short-term value maximization.
Answer: D
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

4) Warren Buffett and his investment firm Berkshire Hathaway is an outstanding example of impatient capital investing.
Answer: FALSE
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

5) The stakeholder capitalism model is characterized by the desire of controlling shareholders to maximize long-term return to equity just as in the shareholder wealth maximization model of corporate governance. However, stakeholder capitalism controlling shareholders are more constrained by which of the following groups than in the shareholder wealth maximization model?
A) banks
B) governments
C) other powerful stakeholders
D) all of the above
Answer: D
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

6) Under the stakeholder capitalism model of corporate governance it is assumed that the long-term or "loyal" stockholders should influence corporate strategy more than the transient portfolio investor.
Answer: TRUE
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

7) Under the shareholder wealth maximization model of corporate governance it is assumed that the long-term or "loyal" stockholders should influence corporate strategy more than the transient portfolio investor.
Answer: FALSE
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

8) Which of the following is a common operational financial objective for MNEs?
A) maximization of consolidated after-tax income
B) maximization of interest expense
C) minimization of revenues from other countries
D) minimization of total assets held in foreign locations
Answer: A
Diff: 1
Topic: 2.2 Goal of Management
Skill: Conceptual

9) Which of the following is a common operational financial objective for MNEs?
A) maximization of interest expense
B) minimization of the firm's effective global tax burden
C) minimization of revenues from other countries
D) minimization of total assets held in foreign locations
Answer: B
Diff: 1
Topic: 2.2 Goal of Management
Skill: Conceptual

10) Which of the following is a common operational financial objective for MNEs?
A) maximization of interest expense
B) minimization of revenues from other countries
C) correct positioning of the firm's income, cash flow, and available funds as to country and currency
D) minimization of total assets held in foreign locations
Answer: C
Diff: 1
Topic: 2.2 Goal of Management
Skill: Conceptual

11) Anglo-American is defined to mean
A) North, Central, and South America.
B) the United States, Canada, and Western Europe.
C) the United States, United Kingdom, Canada, Australia and New Zealand.
D) the United States, France, Britain, and Germany.
Answer: C
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

12) In finance, an efficient market is one in which
A) prices are assumed to be correct.
B) prices adjust quickly and accurately to new information.
C) prices are the best allocators of capital in the macro economy.
D) all of the above
Answer: D
Diff: 1
Topic: 2.2 Goal of Management

Skill: Recognition

13) Systematic risk can be defined as
A) the total risk to the firm.
B) the risk of the individual security.
C) the added risk that a firm's shares bring to a diversified portfolio.
D) the risk that can be systematically diversified away.
Answer: C
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

14) Unsystematic risk can be defined as
A) the total risk to the firm.
B) the risk of a well-diversified portfolio.
C) the added risk that a firm's shares bring to a diversified portfolio.
D) beta.
Answer: A
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

15) "Maximize corporate wealth"
A) is the primary objective of the European/Japanese model of management.
B) as a management objective treats shareholders on a par with other corporate stakeholders such as creditors, labor, and local community.
C) has a broader definition than just financial wealth.
D) all of the above
Answer: D
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

16) Corporate wealth maximization, also known as the stakeholder capitalism model, holds that total risk (operational and financial) is more important than just systematic risk.
Answer: TRUE
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

17) The Stakeholder Capitalism Model
A) clearly places shareholders as the primary stakeholder.
B) combines the interests and inputs of shareholders, creditors, management, employees, and society.
C) has financial profit as its goal and is often termed impatient capital.
D) is the Anglo-American model of corporate governance.
Answer: B
Diff: 1
Topic: 2.2 Goal of Management

Skill: Recognition

18) The Shareholder Wealth Maximization Model
A) combines the interests and inputs of shareholders, creditors, management, employees, and society.
B) is being usurped by the Corporate Wealth Maximization Model as those types of MNEs dominate their global industry segments.
C) clearly places shareholders as the primary stakeholder.
D) is the dominant form of corporate management in the European-Japanese governance system.
Answer: C
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

19) Systematic risk can be eliminated through portfolio diversification.
Answer: FALSE
Diff: 1
Topic: 2.2 Goal of Management
Skill: Conceptual

20) Which of the following is generally NOT considered to be a viable operational goal for a firm?
A) maintaining a strong local currency
B) maximization of after-tax income
C) minimization of the firm's effective global tax burden
D) correct positioning of the firm's income, cash flows and available funds as to country and currency
Answer: A
Diff: 1
Topic: 2.2 Goal of Management
Skill: Conceptual

21) Privatization is a term used to describe
A) firms that are purchased by the government.
B) government operations that are purchased by corporations and other investors.
C) firms that do not use publicly available debt.
D) non-public meetings held by members of interlocking directorates.
Answer: B
Diff: 1
Topic: 2.2 Goal of Management
Skill: Conceptual

22) According to a 2010 McKinsey survey, family businesses tend to use more debt than a benchmark group of comparable publicly traded peer companies.
Answer: FALSE
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

23) According to a 2010 McKinsey survey, family businesses have a lower cost of debt financing than comparable publicly traded firms.
Answer: TRUE
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

24) According to a 2010 McKinsey survey, ________ of all companies in the S&P 500 index may be defined as family businesses, meaning that a family owns a significant share and can influence important decisions, particularly the election of the CEO and chairman.
A) 33%
B) 25%
C) 15%
D) 10%
Answer: A
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

25) According to a 2010 McKinsey survey, family-influenced businesses tend to underperform the public sector in each of five major markets worldwide.
Answer: FALSE
Diff: 1
Topic: 2.2 Goal of Management
Skill: Recognition

2.3 Corporate Governance

1) Which of the following is the "signature" clause of the Sarbanes -Oxley Act?
A) CEOs and CFOs of publicly-traded firms must vouch for the veracity of the firm's financial statements.
B) Corporate board audit and compensation committee members must come from outside directors.
C) Companies may not make loans to their officers and directors.
D) Companies must test their internal financial controls against fraud.
Answer: A
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Conceptual

2) Accountants and lawyers have found the costs to corporations to meet Sarbanes-Oxley regulatory requirements to be disappointingly small and less than anticipated when the legislation was enacted in 2002.
Answer: FALSE
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Conceptual

3) Under the Shareholder Wealth Maximization Goal of Corporate Governance, poor firm performance is likely to be faced with all but which of the following?
A) sale of shares by disgruntled current shareholders
B) shareholder activism to attempt a change in current management
C) as a maximum threat, initiation of a corporate takeover
D) prison time for executive management
Answer: D
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Conceptual

4) Which of the following is a reason why managers act to maximize shareholder wealth in Anglo-American markets?
A) the use of stock options to align the goals of shareholders and managers
B) the market for corporate control that allows for outside takeover of the firm
C) performance based compensation for executive management
D) all of the above
Answer: D
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Conceptual

5) The deliberation of the process demonstrated in the European-Japanese system of corporate governance has sometimes been termed ________.
A) socialism
B) impatient capital
C) patient capital
D) communism
Answer: C
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Recognition

6) With shareholder wealth maximization as the manager's goal, capital may be termed ________.
A) impatient
B) patient
C) borrowed
D) bought
Answer: A
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Recognition

7) Which of the following is NOT an important concept when distinguishing between international and domestic financial management?
A) corporate governance
B) culture, history, and institutions
C) political risk
D) All of the above are important distinguishing concepts.
Answer: D
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Recognition

8) The Board of Directors
A) consists exclusively of the officers of the corporation.
B) is the legal body which is accountable for the governance of the corporation.
C) are not subject to the external forces of the marketplace.
D) is appointed by the Securities and Exchange Commission (SEC).
Answer: B
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Recognition

9) The relationship among stakeholders used to determine and control the strategic direction and performance of an organization is termed ________.
A) corporate governance
B) Anglo-American activism
C) capital structure
D) working capital management
Answer: A
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Recognition

10) 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.
A) Equity markets; executive management
B) Debt markets; board of directors
C) Executive management; auditors
D) Auditors; regulators
Answer: C
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Recognition

11) MultiProducts, Inc. has two classes of common stock. Class A has 1 million shares with 10 votes per share. Class B has 2 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.
A) 33.33%; 33.33%
B) 33.33%; 83.33%
C) 83.33%; 83.33%
D) 83.33%; 33.33%
Answer: D
Diff: 2
Topic: 2.3 Corporate Governance
Skill: Analytical

12) Empirical studies of firms in Norway and Sweden show that firms with Anglo-American board members
A) have higher values than firms without such directors.
B) have lower values than firms without such directors.
C) offer poorer monitoring opportunities of firm management.
D) none of the above.
Answer: A
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Recognition

13) Empirical studies of firms in Norway and Sweden show that as shareholder equity rights increased, the margin between ROA and cost of capital also increased.
Answer: TRUE
Diff: 1
Topic: 2.3 Corporate Governance
Skill: Recognition

14) Fissler AG, headquartered in Germany, records all of it sales worldwide in euros. Its USA division realized sales of €2,675,000 last year when the exchange rate was $1.33/€ and sales of €2,355,000 this year when the exchange rate was $1.48/€. What was the percent change in euro revenues for Fissler for the USA division over the last year?
A) -13.99%
B) -11.96%
C) -2.03%
D) -20.89%
Answer: B
Diff: 2
Topic: 2.3 Corporate Governance
Skill: Analytical

15) Fissler AG, headquartered in Germany, records all of it sales worldwide in euros. Its USA division realized sales of €2,675,000 last year when the exchange rate was $1.33/€ and sales of €2,355,000 this year when the exchange rate was $1.48/€. What was the percent change in USD revenues for the USA division over the last year?
A) -13.99%
B) -11.96%
C) -2.03%
D) -20.89%
Answer: C
Diff: 2
Topic: 2.3 Corporate Governance
Skill: Analytical

<u>Essay Questions</u>

2.1 Who Owns the Business?

1) The authors reference empirical evidence that family-controlled firms all over the world may outperform publicly traded firms. What factors are cited as reasons for this occurring?
Answer: The authors note three primary reasons. 1) Family-owned firms focus on the long-run, 2.) they stick to their core business, and 3) because the owners are closer to management, fewer conflicts arise between management and ownership - thus reducing the agency problem.
Diff: 3
Topic: 2.1 Business Ownership

2.2 What is the Goal of Management?

1) Compare and contrast the Shareholder Wealth Maximization model and the Stakeholder Capitalism model for purposes of managerial goals.
Answer: SWM is at the heart of the Anglo-American form of corporate management in that the primary objective is to maximize shareholder's wealth. SWM assumes that markets are efficient in that security prices react quickly and correctly to the arrival of new information. Further, unsystematic risk can be eliminated through diversification and that systematic risk must be evaluated by market participants. Sometimes, however, capital can be impatient and cause management to focus on short-term benchmarks causing a shift away from wealth maximization.

The SCM recognizes that there are several powerful interests at work influencing management. In addition to stockholders, there are also banks, governments, and workers that place constraints on management behavior. SCM does not specifically assume efficient markets but it does consider total risk to be important in valuing a firm.
Diff: 3
Topic: 2.2 Goal of Management

2) 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.
Answer: 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.
Diff: 3
Topic: 2.2 Goal of Management

2.3 Corporate Governance

1) The Sarbanes-Oxley Act (SOX) was passed in 2002 by the U.S. Congress to address corporate governance reform. SOX has not been without controversy to put it mildly. Identify and discuss several positive and negative impacts of SOX on corporations here and abroad.
Answer: The Signature clause requires CEOs and CFOs to sign-off on financial statements. This in turn has led companies to do the same at multiple levels of management below the executive level. Costs have significantly exceeded expectations and disproportionately so for smaller organizations. Start-up firms in an attempt to avoid the legal and liability costs have opted to be purchased by larger existing companies rather than go public with IPOs. Firms may be more risk averse. International firms balked at having to meet the new standards especially when their existing markets may already provide more efficient and effective governance.
Diff: 3
Topic: 2.3 Corporate Governance