

MULTIPLE CHOICE QUESTIONS.

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

CHAPTER 1 – INTRODUCTION TO CORPORATE GOVERNANCE

- 1) For moral hazard to exist, there needs to be ...
- A) symmetry of information.
 - B) asymmetry of information.
 - C) the possibility of complete contracts.
 - D) None of the above.

ANS: B

- 2) Related-party transactions may consist of ...
- A) managers becoming entrenched.
 - B) tunnelling and transfer pricing.
 - C) transactions between shareholders of the same political persuasion.
 - D) None of the above.

ANS: B

- 3) The agency problem of debt consists of the following:
- A) the debtholders forcing the managers to expropriate the shareholders.
 - B) banks using proxy votes.
 - C) the shareholders expropriating the debtholders.
 - D) the large debtholder expropriating the minority debtholders.

ANS: C

- 4) Which of the following are examples of agency problems?
- A) Empire building
 - B) Investing the firm's funds in projects with a negative net present value.
 - C) Managers' on-the-job consumption of shareholder funds.
 - D) All of the above apply.

ANS: D

- 5) The following statement about the residual loss is correct.
- A) There is a residual loss if the monitoring costs exceed the bonding costs.
 - B) The residual loss consists of the loss in firm value caused by the agent not running the firm in the interest of the principal and which cannot be prevented by monitoring and bonding.
 - C) The residual loss is the difference between the monitoring costs and the bonding costs.
 - D) None of the above.

ANS: B

- 6) The main corporate governance problem outside the UK and the USA is ...
- A) the principal-agent problem.
 - B) excessive dividends.
 - C) the expropriation of the minority shareholders by the large, controlling shareholder.
 - D) hostile takeovers.

ANS: C

- 7) Which one of the following is a benefit of the mutual organisational form?
- A) The avoidance of conflicts of interests between owners and customers.
 - B) The reduced cost of capital.
 - C) The higher threat of a hostile takeover and the resulting higher pressure on the managers to perform well.
 - D) None of the above.

ANS: A

- 8) Which one of the following statements about evidence from research on German and UK initial public offerings (IPOs) is true?
- A) UK IPOs end up with fewer new large shareholders six years after the IPO.
 - B) There is a rapid separation of ownership and control in the German IPOs.
 - C) The initial shareholders of German IPOs manage to keep majority control longer than the initial shareholders of UK IPOs.
 - D) None of the above.

ANS: C

- 9) Which one of the following statements is correct?
- A) German banks assume a much more important role as providers of finance and management support in small- and medium-sized enterprises than in other countries.
 - B) Banks never assumed an important role in the German corporate governance system.
 - C) Germany is not a bank-based system. This is just a myth.
 - D) The German corporate governance system is not any different from the UK or US system in terms of the role of banks.

ANS: A

- 10) Which one of the following statements about the theory of property rights is true?
- A) Employees should be given ownership of the firm, if their investments in their human capital are highly specific to the firm.
 - B) Firms should not be in the form of partnerships unless they operate in the financial sector.
 - C) Property rights should always confer more cash flow rights than control rights.
 - D) None of the above.

ANS: A

11) Which one of the following statements correctly defines demutualisation?

- A) The demutualisation consists of a mutual building society converting into a stock corporation and floating on the stock exchange.
- B) This concerns the change in control from the situation where the firm is mutually controlled by many small shareholders to the situation where the firm is controlled by a large shareholder.
- C) Both of the above are correct.
- D) None of the above.

ANS: A

12) The 'quiet life' hypothesis consists of ...

- A) Employees taking too many holidays.
- B) Managers avoiding cognitively difficult activities.
- C) Shareholders retiring from their day jobs to live off the revenues from their investments.
- D) None of the above.

ANS: B

CHAPTER 2 – CORPORATE CONTROL ACROSS THE WORLD

13) Compared to UK firms, German firms ...

- A) experience a much more rapid separation between ownership and control after going public.
- B) experience no or at least a much less rapid separation between ownership and control after going public.
- C) are on average older when they go public.
- D) Both B and C are correct.

ANS: D

14) Which one of the following statements is correct?

- A) Surprisingly, control by banks is relatively low in continental Europe.
- B) Apart from the UK and the Netherlands, institutional investors are relatively unimportant.
- C) The most important type of large shareholder across continental Europe is holding companies and industrial companies.
- D) All of the above are correct.

ANS: D

15) Which one of the following statements is correct?

- A) Institutional investors, followed by managers, are the most important types of shareholders in the UK.
- B) Managers are the most important type of shareholder in the UK.
- C) Institutional investors are the second most important type of shareholder in the UK.

D) None of the above are correct.

ANS: A

16) Which one of the following statements is correct?

- A) The concentration of control in UK firms is low, but still higher than in US firms.
- B) Most of stock-market listed firms in the USA have a shareholder with a blocking minority, but no shareholder with a majority of the votes.
- C) The concentration of control in the Netherlands is comparable to that in UK and US firms.
- D) None of the above.

ANS: A

17) Which one of the following statements is correct?

- A) Families are the most important type of large shareholder across all of Europe.
- B) Institutional shareholders are the main type of shareholder in the UK.
- C) Institutional shareholders are the main type of shareholder in the Netherlands.
- D) Both B and C are correct.

ANS: D

18) Which one of the following statements is correct?

- A) The concentration of control in Japan is low compared to other Asian countries.
- B) Zaibatsus are typically the pre-WWII form of most keiretsus.
- C) A keiretsu is a group of industrial companies with ties to a single bank which acts as the principal lender to the group companies.
- D) All of the above.

ANS: D

19) Which one of the following statements is correct?

- A) Corporate control in Eastern Europe is slightly lower than in Western Europe.
- B) Corporate control in Eastern Europe is slightly lower than in Western Europe and the second largest shareholder is much more important.
- C) Corporate control in the transitional economies of Eastern Europe is as concentrated as in Western Europe.
- D) None of the above.

ANS: B

20) Internal capital markets, i.e. capital markets within so called business groups, tend to be efficient, if ...

- A) The business groups are in the form of horizontal structures.
- B) The business groups are characterised by cross-shareholdings.
- C) The business groups are in the form of ownership pyramids.

D) None of the above.

ANS: C

21) In the former Communist countries of Eastern Europe, the most prevalent types of large shareholders are ...

A) Foreign shareholders.

B) Individuals.

C) The government.

D) Both B) and C).

ANS: D