Chapter 2

1. One of the requirements of a good objective function is that it be observable and timely. What do we mean by "observable" and "timely" and why are these characteristics important?
2. Why is the annual meeting not a very effective device for investors to keep control over managers? What would you change about the way annual meetings are structured and run to make them more effective?
3. Why is the board of directors not very effective at giving stockholders oversight over managers? What would you change about the way they are structured to make them more effective?
4. What is the source of the conflict between stockholders and bondholders? What are some of the ways in which stockholders can enrich themselves at bondholder expense and how do bondholders protect themselves against such actions?
5. When we talk about "efficient markets" as a necessary condition for stock price maximization to work as the sole objective, what do we mean by "efficiency"? Why does it matter?
6. What is a social cost? Give an example of a social cost and explain how this social cost can ultimately affect firm value?
7. Consider the objective of maximizing market share. Examine the potential for agency problems (between managers and stockholders, stockholders and bondholders, the firm with financial markets and society) with this objective.
8. Why might manager-based corporate governance systems (like the German and Japanese system) be more effective than market-based system at dealing with firm-specific problems but less effective at dealing with systematic problems?
9. "A key advantage of a market-based system that focuses on stock price maximization is that it is self-correcting". Explain what we mean by "self-correcting" and give an example.
10. Under what conditions would maximizing stock prices be congruent with maximizing societal welfare?