

CONTENTS

Letter from the authors to instructors.....	3
Ideas to structure the course.....	6
Sample syllabi.....	8
Test Bank Questions and Answers	
Chapter 1.....	11
Chapter 2.....	13
Chapter 3.....	15
Chapter 4.....	18
Chapter 5.....	21
Chapter 6.....	23
Chapter 7.....	25
Chapter 8.....	27
Chapter 9.....	29
Chapter 10.....	31
Chapter 11.....	34
Power Point Slides.....	37

LETTER TO INSTRUCTORS

Welcome to the third edition of *Corporate Governance*! This manual offers general advice to instructors and an overview of the textbook, ideas on how this course can be taught, sample syllabi, a test bank, and copies of PowerPoint slides that come with the second edition. If you don't have the slides in electronic version, then you can get them directly from Pearson Education or by contacting one of us at kk52@buffalo.edu, john_nofsinger@wsu.edu or dmohr@buffalo.edu. But first, here is some general advice and information about the textbook and supplementary materials.

Some simple advice: Read the textbook. Each chapter only takes 30-40 minutes to read. This way, you will be able to use PowerPoint lecture slides with confidence. Even if you have only a very basic understanding of corporate governance, the textbook's material will be pretty easy for you to grasp.

Another piece of advice: Let the students do most of the work. This course primarily should be an interactive and/or discussion course. Students like to talk. Let them. You can introduce the material by using the PowerPoint slides, but then afterwards, let the students take over. There are several ways that students can take over. We have outlined them in these pages. If you follow our advice, then this should be a really easy course for you to teach, you should get good teaching evaluations, the students will get a lot out of it, and we are pretty sure that you will also learn a lot from the students.

About the textbook and its chapters: Each chapter covers a different topic related to corporate governance. Of all of the corporate governance books out there, ours has the most breadth. We cover numerous aspects of both internal and external governance. Each chapter is also self-contained. After the first chapter, you can present chapters in any order that you wish, without having to worry about disruption to flow.

About the PowerPoint slides: The slides were initially made by graduate students. Then, we improved on them. Then, we used them ourselves and we improved on them even further. However, the slides are not thorough in the sense that they do not contain a script for you to read along to. They merely contain bullet points to jog your memory or to guide your lecture. When you first see the slides, you might think that they are insufficient to lecture from, but if you read the chapter before-hand, such as the day before lecture, then you will find that these slides provide just enough information to facilitate the lecture. As you show the slides, you can simply read each bullet and then say whatever you want about it. Our personal experience is that each chapter's slides take about 35-40 minutes to cover. Alternatively, you could simply have the students give these lectures (using our slides or having them make their own). We've done this too, and it works well.

About end-of-chapter "Review Questions": These questions are simple and straight-forward. They are merely for the students to answer on their own time. No need to touch on them. The answers to these questions are contained in the chapter. The purpose of these questions is to let the students know, from the textbook's point of the view, what the most important facts, ideas, and concepts are that they were supposed to have gotten from reading the chapter. However,

these questions are not comprehensive such that knowing their answers does not suggest that students have mastered the chapter's materials. You can point this out to the students if you wish.

About end-of-chapter “Discussion Questions”: There are no “right” answers to these questions! They are for class discussion. The instructor can serve as moderator. Or, the instructor can assign individual students to moderate discussion. If you do the latter, then you should ask the student moderators to come to class prepared (i.e., they should think about the questions thoroughly before coming to class). You could also assign these Questions as homework and have students present their answers, and then open it up to the class for debate. By the way, you will find that these are pretty thought-provoking questions.

About end-of-chapter “Exercises”: These should be done by the students *outside* of class time and they should present their work in class. All of the exercises are do-able. Some are time-consuming, but they are very worthwhile. These exercises are hands-on and they are real-world, which are what most business school students desire. Students who do these exercises will get a lot out of them. Students who see these exercises presented by other students will also get a lot out of them. You will also be exposed to some interesting and useful information as well.

About end-of-chapter “Exercises for Non-U.S. Students”: If you are teaching this class outside of the U.S., or to international students, then these represent excellent exercises for them to learn about corporate governance in their own country. Even for classes in the U.S., you and the students will probably find these exercises useful as well. U.S. students will of course benefit from learning about corporate governance in different countries.

About the “Test Bank”: We had graduate assistants create most test bank questions (and first and foremost we thank Karl-Heinz Benning in this regard). The test bank questions have all been “tested.” Every question that appears in our test bank has been used on our own students and in using them we also solicited comments on questions as well. We reviewed the students’ comments and have reworded the questions and/or possible answer to eliminate unintentional ambiguity. However, as with all test banks, some questions may have one or more of the following elements: (1) there may be more than one correct answer to a question, (2) a choice that is incorrect may actually be correct under a specific circumstance or contrived condition, (3) a question may be ambiguous or vague, and (4) a source other than the textbook may suggest a different correct answer. Our responses to each of these potential criticisms are as follows: (1) students should choose the one best answer, (2) students should answer the question as it is asked, as introducing a contrived situation can make almost any wrong answer a correct answer, (3) some questions are intentionally ambiguous or vague, but the more one studies the less ambiguous and vague the question will be, and besides, questions with only one obvious correct choice with all other choices being obviously wrong makes for a childish exam, college students who read the chapters, actively participated in discussion, and honestly pondered the relevant issues, should be able to weed through the abstraction of any question and recognize what is the most correct answer, and (4) students should answer questions based on the textbook readings, as your adoption of this textbook represents your advocating the book’s viewpoints, unless you specifically state a contradictory opinion.

About using outside material to supplement the textbook: Some instructors who have used our textbook have told us that they sometimes use outside material to supplement our textbook. There are two ways that this can be done. You can use our textbook to start out with (e.g., from the first several weeks of class to the first half of the semester), and then use outside material for the rest of the course. Or, alternatively, you could cover a chapter from our textbook, and then use outside material to supplement that chapter, and then go on to a next chapter from our textbook, and again use outside material afterwards, and so forth. By the way, when we say “outside material” we are referring to academic journal articles. There are a lot of corporate governance papers freely available on the internet. If you go to www.scholar.google.com and type in keywords based on the chapter topic, you will find more than enough papers to choose from. Again, this does not need to be more work for you. You can have the students present the highlights of these outside materials, and also have the students lead discussions on them. The sample syllabus describes such a way. Again, everyone, including you, will learn a lot if outside material is used, as this provides a way for students to get exposed to the contents of many academic papers in one class. Incidentally, instructors may opt to supplement our textbook with other corporate governance textbooks.

IDEAS TO STRUCTURE THE COURSE

1-credit, 1-week module that meets 3-4 hours per day: For each day, assign one or more student groups before-hand to present all of the end-of-chapter exercises on the chapters to be covered for that day. During class sessions, the first half of the session can involve you lecturing off of our PowerPoint slides. Try to cover 2-3 chapters. Then take a break. Then have the student groups present their work based on the exercises. You can skip end-of-chapter discussions. The student deliverables can be their Power Point slides. You can also give them a comprehensive exam on the last day. A comprehensive exam ensures that students will read all of the chapters and come to all of the classes, regardless of whether they were assigned to a particular chapter and presenting on that day.

1.5-credit, 6-week module that meets twice per week: Each class session can cover one chapter. For each day, assign a student group before-hand to present all of the end-of-chapter exercises on the chapter to be covered for that day. During the class session, you can start by lecturing off of our PowerPoint slides. Then, let the student group present their work based on that chapter's exercises. If time remains (and we find that time often remains for a 75-80 minute class, so you might make this mandatory), address some of the end-of-chapter discussion questions. As with the above, the deliverables can be their PowerPoint slides and a comprehensive final exam.

3-credit, full semester class that meets twice per week: Each week can cover one chapter. Again, have student groups present their work based on the chapter's exercises. However, in addition to those exercises, have them also pick and prepare at least two exercises for non-U.S. students. Even if your students are U.S. students, ask them to do research on those exercises anyway. Tell them that learning about international corporate governance is an important part of the course. Also fully include the end-of-chapter discussions into the course. The best way to do all of this is as follows. During the first session of the week, lecture off of our PowerPoint slides to introduce the chapter. Then, lead class discussion using our end-of-chapter discussion questions as a guide. For the second session of the week, have the students show their work from the end-of-chapter exercises. If you are not fully confident that this represents two full class sessions, then you can try adding a supplemental reading for each chapter and have a student group present its findings. Or, you can try to cover one and half chapters per week, and then finish off the semester with supplement readings. Finally, you can also assign individual or group research projects that either the students or you can choose, and have them present the highlights of their projects during the last set of weeks. Here, the deliverables include their PowerPoint slides, a final exam, and also any write-up of supplemental readings or a project. By the way, in your final exam, you may also wish to include essay questions based on supplement materials. In our own exam essay questions, we usually ask simple questions on the supplemental readings, such as "what is the main point of this paper?," simply to make sure that it was read.

A sample syllabus: On the following pages is a syllabus that one of us used to teach a one-week module on corporate governance. In fact, the structure of the course is a bit different from what is suggested above, and thus represents a different idea of how to teach it. You will note that the

module focuses on international corporate governance. Therefore, the supplemental readings used in that module all have an international focus.

SAMPLE SYLLABUS

Module on International Corporate Governance

Background:

When the internet bubble burst and when numerous accounting scandals (e.g., WorldCom, Enron, Parmalat, etc.) came to light, the markets crashed and countries around the world issued new or revised corporate governance codes, including the U.S. (e.g., Sarbanes-Oxley Act). This module deals with one of the most important financial issues of our times: corporate governance.

Course Objectives:

Upon completion of this module, students will know and understand the key issues and players involved in corporate governance. Students will also gain an appreciation of how corporate governance issues are complicated. Finally, students will also be exposed to the latest global issues with regard to corporate governance.

Grading:

- 20% Group Presentation #1
- 20% Group Presentation #2
- 20% Comprehensive Final Exam
- 20% Peer Evaluation from Group Members
- 20% Quality of Participation when NOT Presenting

Required Readings:

- Kim and Nofsinger, 2007, *Corporate Governance*, 2nd edition, Prentice Hall.
- Academic journal articles listed below.

Course Strategy:

I will lecture on Monday. My lecture will be based on Kim and Nofsinger's textbook. On Tuesday and Wednesday, students will make group presentations using PowerPoint. Finally, a final exam will be administered on the last day.

For the team-based presentations, I have created teams of 3 students. Team members will be announced one week prior to our module.

Final Exam:

The final exam is cumulative. It contains true/false questions and multiple-choice questions. There are also short essay questions based on supplemental readings. The purpose of the exam is to make sure you did all of the readings, even those readings that you were not assigned to present.

Detailed Course Outline:

Day 1: Lecture

Readings: Kim and Nofsinger textbook.

Important Notes: I will lecture to kick off the module. My lecture will be based on the Kim and Nofsinger book. In fact, my lecture on Monday will cover the entire book.

Day 2: Student presentations

Readings: Kim and Nofsinger textbook.

Important Notes: Each team is assigned to a specific chapter. Teams must do and present the “Exercises” in their assigned chapter. Exercises can be found at the end of each chapter. Then, those same teams are expected to lead class discussions on their chapter. “Discussion Questions” are also found at the end of each chapter. In your presentations, please also try to identify one or more questions from the “Exercises for Non-U.S. Students” for presentation and discussion. A formal write-up is NOT due. I only require a hardcopy of the PowerPoint presentation. The following teams will present “Exercises” and lead “Discussions” for the following chapters.

Team #1	Chapter 2: Executive Incentives
Team #2	Chapter 3: Accountants and Auditors
Team #3	Chapter 4: Boards of Directors
Team #4	Chapter 5: I-Banks and Analysts
Team #5	Chapter 6: Creditors and Credit Rating Agencies
Team #6	Chapter 7: Shareholders and Activism
Team #7	Chapter 8: Takeovers
Team #8:	Chapter 9: SEC

Day 3: Student presentations

Readings: Kim and Nofsinger textbook, and additional readings (see below).

Important Notes: Each team is assigned to a specific Kim and Nofsinger book chapter, OR academic paper. For those teams assigned to a book chapter, please follow the procedures above for your presentations. For those teams assigned to an academic paper, please use the following guidelines for your presentation. First, please tell us the overall big picture point of the paper. Second, tell us how the paper plans to get its point across. Third, tell us what the paper empirically does/finds. Finally, in your opinion, tell us what we should do given what the article says (after all, if an academic paper has no practical use or value, then good is it?). Tip: Here is a useful tip for those presenting academic articles. Reading academic economics and finance papers is not as hard as you might think. There is a trick to it. The point of the paper and how the paper will try to get its point across are both usually covered in the introduction. Then, you can pretty much use the tables to point out what the paper does. The key results are usually in a

few tables. See if you can identify those key tables and present the key findings in them. For teams presenting academic papers, you do not have to lead discussion on those papers.

Team #1	Chapter 10: New Rules
Team #2	Chapter 11: Citizenship
Team #3	Article 1: Law and Finance
Team #4	Article 2: Investor Protection and Firm Value
Team #5	Article 3: Insider Trading Laws
Team #6	Article 4: What Works in Securities Laws?
Team #7	Article 5: Country Characteristics and Governance
Team #8	Article 6: To Steal or Not to Steal
Instructor	Article 7: Shareholder Rights and Boards

Article #1

LaPorta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny, 1998, Law and finance, *Journal of Political Economy* 106, 1113-1155.

Article #2

LaPorta, R., F. Lopez-de-Silanes, and A. Shleifer, 2002, Investor protection and corporate valuation, *Journal of Finance* 57, 1147-1169.

Article #3

Beny, L.N., 2007, Insider trading laws and stock markets around the world: An empirical contribution to the theoretical law and economics debate, *Journal of Corporation Law*, forthcoming.

Article #4

LaPorta, R., F. Lopez-de-Silanes, and A. Shleifer, 2006, What works in securities laws?, *Journal of Finance* 61, 1-32.

Article #5

Doidge, C., G. Karolyi, and R. Stulz, 2006, Why do country characteristics matter so much for corporate governance?, *Journal of Financial Economics*, forthcoming.

Article #6

Durnev, A. and E. Kim, 2005, To steal or not to steal: Firm attributes, legal environment, and valuation, *Journal of Finance* 60, 1461-1493.

Article #7

Kim, K.A., P. Kitsabunnarat, and J. Nofsinger, 2007, Large shareholders, board independence, and minority shareholder rights: Evidence from Europe, SUNY-Buffalo working paper

Day #4

Wrap-up and Comprehensive Final Exam

TEST BANK

Correct answers for True/False questions are denoted with a T or F. Correct answers to multiple-choice question are in bold.

Chapter 1: Corporations and Corporate Governance

True / False Questions

- F ____ Capitalism is an economic system of business based on public enterprise.
- T ____ The main goal of a company is to create an environment conducive to earning long-term profits.
- F ____ The owners of corporations act as agents for the firm and bear unlimited personal liability.
- T ____ Solutions to the principal-agent problem are incentives and monitoring.

Multiple Choice Questions

In general, basic forms of business can be ____.

- a. a sole proprietorship
- b. a partnership
- c. a corporation
- d. All of the above.**
- e. None of the above.

The principal-agent problem can be described as:

- a. Managers will always try to pursue enough profits to keep stockholders satisfied.
- b. The owner acts as the agent of the firm and the manager is the principal who controls the firm.
- c. If shareholders cannot effectively monitor the managers' behavior, managers may be tempted to use the firm's assets for their own ends.**
- d. All of the above
- e. None of the above.

According to Chapter 1, monitoring groups outside of the company can be all EXCEPT

- a. Auditors
- b. Board of Directors**
- c. Investment analysts
- d. All of the above are outside monitors.
- e. Both a and b.

Which is perhaps the most important advantage of the corporate business form?

- a. Easy to start up.
- b. Double taxation for shareholders can be avoided.
- c. Running a corporation is usually not very expensive.
- d. Access to the capital market.**
- e. None of the above is an important advantage.

Chapter 2: Executive Incentives

True / False Questions

- F ____ The base salary of a CEO is solely based on characteristics of the CEO (e.g. age, experience).
- T ____ One advantage of awarding bonuses as opposed to giving raises, is that bonuses are one time rewards for realized performance.
- T ____ Performance stock is common stock of the company given to the executives only if certain performance criteria are met.
- T ____ If the stock price is underwater, options lose their effectiveness to motivate a CEO.
- F ____ If a manager receives incentives, then the company will perform well.
- T ____ Restricted stock usually requires a certain amount of time to pass before becoming unrestricted.
- F ____ The character of the CEO is really what drives the basis for their pay.
- T ____ Xerox admitted to the SEC that it had improperly recorded earnings and agreed to pay a \$10 million fine

Multiple Choice Questions

Typically, on which accounting profit measures are cash bonuses for CEO's based on?

- a. Earnings per share.
- b. Earnings before interest and taxes.
- c. Economic value added.
- d. All of the above.**
- e. None of the above.

What does expensing executives options mean?

- a. Cost of stock options issued to executives should be treated as an expense on the firm's financial statements.**
- b. Under the Sarbanes-Oxley Act, the firm has to pay an extra fee for issuing stock options to executives.
- c. Under new FASB regulations, the value of granted options must no longer be deducted from the firm's reported income.
- d. Both a and b.
- e. None of the above.