Chapter 1 – Finance

1)If a company is formulating a compensation package for the company’s CEO, would an annual salary of $800,000 most likely to be in the shareholders’ best interest?

2)If stockholders are primarily individual investors and there is little institutional ownership, and several pension and mutual funds were to take large positions in a company’s stock, would direct shareholder intervention be more or less likely to motiviate the firm’s management. I think it should be less likely.

3)Having trouble with institutional investor or activist investor – would it be more difficult to stage a hostile takeover with an institutional or activist investor? I believe the correct answer is activist?

4)If a company’s stock price is currently greater than its intrinsic value, would a company be more or less likely to receive a hotstile takeover bid than if its stock price were less than its intrinsic value? I picked less likely.

Chapter 3

1)If a firm has a high retained earnings balance, could it still need to borrow cash to make required payments? I said YES

Suppose a firm finishes this year with exactly the same amount of retained earnings as it had at the end of last year – which would be true?

The firm paid no dividend this year.

If the firm paid a dividend this year, then that dividend must have equaled income.

The firm had zero net income this year

The firm had negative net income this year