Question #1 of 7

Question ID: 1573299

The interests of community groups affected by a company's operations are *most likely* to be considered in corporate governance under:

A) special interest theory.

B) shareholder theory.

C) stakeholder theory.

Explanation

Community groups may be one of the stakeholder groups considered under stakeholder theory.

(Module 23.1, LOS 23.b)

Question #2 of 7

Question ID: 1573298

The stakeholder theory of corporate governance is primarily focused on:

A) increasing the value a company.

B) resolving the competing interests of those who manage companies and other groups affected by a company’s actions.

C) the interests of various stakeholders rather than the interests of shareholders.

Explanation

Resolving the conflicting interests of both shareholders and other stakeholders is the focus of corporate governance under stakeholder theory. Shareholders are among the groups whose interests are considered under stakeholder theory.

(Module 23.1, LOS 23.b)

Question #3 of 7

Question ID: 1573297

Increasing a company's risk exposure in an effort to increase its growth rate is *most likely* to be favored by:

A) owners but not lenders.

B) neither lenders nor owners.

C) both lenders and owners.

Explanation

Because the upside for lenders is limited to the promised interest payments and repayment of principal, they do not benefit from an increased growth rate of the company and are unlikely to favor actions that increase a company's risk exposure and potential for default. Because owners have potentially unlimited upside from a company's growth, they are more likely to favor actions that increase a company's potential growth rate.

(Module 23.1, LOS 23.a)

Question #4 of 7

Question ID: 1573302

The stakeholder group that typically prefers the greatest amount of business risk is:

A) directors.

B) shareholders.

C) senior managers.

Explanation

Compared to the other two groups, shareholders have the greatest potential gains from riskier strategies and can diversify their holdings across firms in order to reduce the influence of company specific risk. While senior managers can gain from company outperformance, they typically prefer less risk than shareholders because managers' risk of poor company performance on the value of their options and on their careers cannot be easily diversified away.

(Module 23.1, LOS 23.b)

Question #5 of 7

Question ID: 1573300

Under shareholder theory, corporate governance is *most* concerned with managing conflicts of interest between the firm's managers and its:

A) employees.

B) customers.

C) owners.

Explanation

Under shareholder theory, corporate governance is most concerned with managing conflicts of interest between the firm's managers and its owners (shareholders).

(Module 23.1, LOS 23.b)

Question #6 of 7

Question ID: 1573301

The stakeholders of a company that are *least likely* to prefer a relatively riskier company strategy that has the potential for superior company performance are:

A) creditors.

B) suppliers.

C) shareholders.

Explanation

A company's creditors prefer less risk because their potential gains from superior company performance are limited, while they have significant downside risk from poor performance that could threaten the company's solvency. Shareholders have the greatest gains from superior company performance. Suppliers may benefit from superior performance of a company to which they supply goods and services, but in general they prefer stable business operations and continuation of their business relationship with the company.

(Module 23.1, LOS 23.b)

Question #7 of 7

Question ID: 1573296

Which of the following payments are contractual obligations of a corporation?

A) Interest, principal, and preferred stock dividend payments.

B) Interest and principal payments.

C) Interest and common stock dividend payments.

Explanation

Interest and principal payments to lenders are contractual obligations. A corporation may distribute dividends to owners but is not required to do so.

(Module 23.1, LOS 23.a)