Topic 9: International Corporate Governance

1. The majority of major corporations are franchised as public corporations. Discuss the key strength and weakness of the 'public corporation'. When do you think the public corporation as an organizational form is unsuitable?
2. The public corporation is owned by multitude of shareholders but managed by professional managers. Managers can take self-interested actions at the expense of shareholders. Discuss the conditions under which the so-called agency problem arises. **(*)**
3. Studies show that the legal protection of shareholder rights varies a great deal across countries. Discuss the possible reasons why the English common law tradition provides the strongest and the French civil law tradition the weakest protection of investors. **(*)**
4. Discuss different ways that dominant investors use to establish and maintain the control of the company with relatively small investments. **(*)**
5. Many companies grant stocks or stock options to the managers. Discuss the benefits and possible costs of using this kind of incentive compensation scheme.
6. It has been shown that foreign companies listed in the U.S. stock exchanges are valued more than those from the same countries that are not listed in the U.S. Explain the reasons why U.S.-listed foreign firms are valued more than those which are not. Also explain why not every foreign firm wants to list stocks in the United States. **(*)**
7. Define corporate governance. How is it relevant to investors? **(*)**
8. Explain the different internal corporate governance mechanisms available to companies.
9. What external mechanisms also play a part in corporate governance? **(*)**
10. The 1998 study "Law and Finance" by La Porta, Lopes-de-Silanes, Shleifer, and Vishny measures the ownership concentration of firms in many countries around the world. They show that the top three shareholders of the typical U.S. firm own 12% of the firm's equity, while the top three shareholders of the typical Mexican firm owns 67% of the firm's equity. What explanation do these authors advocate for this large difference in ownership concentration between these two countries? (*)

    (*Past Exam Question)*
11. The table below contains some data for two countries, Italy and the United Kingdom. The 1998 study "Law and Finance" by La Porta, Lopes-de-Silanes, Shleifer, and Vishny

has an explanation for why we observe differences across these two countries in the three measures below (labeled 1, 2, 3). Describe the basic idea behind the "Law and Finance" view and the author's explanation for the differences in these three measures.

(*) *(Past Exam Question)*

	Italy	UK
Legal Origin	French civil law	English common law
Shareholder rights index	1 (low)	5 (high)
(1) Average ownership of the 3 largest shareholders	58%	19%
(2) Market capitalization of the stock market/GDP	71%	248%
(3) Number of listed stocks	247	2,292

Note: I would like students to investigate what the variables in rows (1) to (3) measure.