

# Chapter 1

## Practice Problems

1. What are the two major categories of financial securities issued by firms?
2. Who are the owners of a corporation?
3. What rule do shareholders want managers to use to make decisions?
4. What is limited liability? *Who* has it?
5. What are the three major types of decisions that firms make?
6. How does maximizing shareholder value affect society?
7. What are some societal responses to the externalities of maximizing shareholder wealth?
8. Describe the conflict between managers and shareholders. Give an example of a way to align manager and shareholder interests.
9. What is the conflict of interest between shareholders and debtholders, and what drives it?
10. Give an example of a way to align the incentives of shareholders and bondholders (i.e. an example of how the conflict can be resolved)?