

Solutions and grading scale Finance I

Evaluación	Quiz 1
Fecha	21-03-2012

Question	Area	Outstanding (3)	Sufficient (2)	Needs improvement (1)	Insufficient (0)	Score	Factor
1. What are the key characteristics of a corporation?	Understanding of the key characteristics of a corporation	- Identifies both components clearly, using adequate language (english or spanish) 1. Limited Liability of owners 2.- Possible separation of owners and management	- Identifies both components, using imprecise descriptions that don't modify the overall concept 1. Limited Liability of owners 2.- Possible separation of owners and management	- Identifies clearly one of the components or - Identifies both with a level of ambiguity that could lead the reviewer to a wrong interpretation of the concept	The response doesn't comply with minimum requirements of previous levels	15	5
2. Please explain the agency problem, providing an example in a corporate context?	Understanding of the agency problem	Describes the agency problem clearly, using adequate language and proposes a precise and coherent corporate example - The agency problem consists in the conflict raised between different parties due to divergent interests or goals	Response contains both the explanation and example, but one of them doesn't comply with the requirement of an outstanding response	Response contains either: - only 1 of the elements with the outstanding requirements - both elements, without the outstanding requirements	The response doesn't comply with minimum requirements of previous levels	15	5
3. In class, we discussed that as long as a perfect capital market exists, the manager should not take into consideration the risk and consumption preferences of the owners. Suppose that a company only has 1 owner, risk averse and with consumption impatience (prefers present consumption). Suppose the owner is also the manager. If the company has 3 projects: 1.- Low risk and short term NPV = \$100; 2.- Medium risk and medium term NPV = \$110; 3.- High risk and long term NPV = \$110. Which project should the owner support? Explain your reasoning	Objective of the firm and separation of interests	- Identifies either project 2 or 3 as NPV maximizers and explains clearly that the goal of the company is to increase its value, not maximize owners utility. The owners can maximize their utility through the capital market more efficiently than through the company	The student identifies either project 2 or 3 as NPV maximizers and explains poorly that the goal of the company is to increase its value, not maximize owners utility. The owners can maximize their utility through the capital market more efficiently than through the company	The student identifies either project 2 or 3 as NPV maximizers but doesn't provide an explanation	The student fails to identify either project 2 or 3 as NPV maximizers	15	5
4. Provide 3 examples of corporate governance procedures that shareholders apply to ensure that management fulfill their duties correctly	Corporate governance and agency problems	Provides 3 examples, presented in a clear and coherent context	Provides 2 examples, presented in a clear and coherent context. If a third example is presented, it might be vague or out of a corporate context	Provides 1 example, presented in a clear and coherent context. If a second or third example is presented, it might be vague or out of a corporate context	The response doesn't comply with minimum requirements of previous levels	15	5
5. Suppose you are the financial manager of a large multinational corporation. Please select all the projects you would pursue if you had \$100 budget	NPV	Project 3	"Sufficient" grade is not available for this question	Project 1 and 3 simultaneously	The response doesn't comply with minimum requirements of previous levels	15	5
6. Suppose you are the financial manager of a large multinational corporation. Please select which project you would pursue if all of the following had the same 20% cost of opportunity	Cost of opportunity	Investment 1	Investment 4	"Needs improvement" grade is not available for this question	The response doesn't comply with minimum requirements of previous levels	15	5

Total score 90
% required to approve 60%