

Spring 2012 Final
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56 1) Mgt will want to (diversify) the firm
while S/H won't

Reason: Diversification benefits mgt
who is (not well diversified) while

S/H don't benefit since they (are
diversified) & may lose if the
diversification is expensive

52 = 75

41 = 73

30 = 71

24 = 69

27 = 67

22 = 65

12 = 63

11 = 62

8 = 60

-8 = 53

4 = 48

3 = 43

2 = 38

1 = 38

2) Mgt will want to (grow firm) even if
not in S/H interest (Empire build)

Reason: (Mgt benefits from larger
firm) through ↑ in pay, perks, power,
prestige & lower risk
⇒ S/H lose if (negative NPV) expansion

Protection:

1) (↑ leverage) of firm
⇒ cash used for debt service instead of
being wasted
⇒ creditors help (monitor mgt)