

Quiz C: 3/21/12

Name & Time _____

Quiz: Assume that yesterday Firms A, B and C were identical and that all three were privately-owned firms where the founder and CEO owned 100% of the firm's stock.

- a. Assume that as a result of an initial public offering this morning, Firm B's founder (who will remain the firm's CEO) now only owns 5% of that firm's outstanding shares. Based on the information in chapter 16, what differences would you expect to see in the future decisions made by the CEOs of Firms A and B? What is the reason (or reasons) for each of these differences?
- b. Assume that this morning Firm C undertook an initial public offering of shares that also resulted in the founder (who will remain the CEO) of Firm C owning only 5% of the firm's outstanding shares. However Firm C also issued a significant amount of debt at the same time it undertook the initial public offering. Based on the information in chapter 16, what differences would you expect to see in the future decisions made by the CEOs of Firms B and C? What is the reason (or reasons) for each of these differences?

Note: Bonus WSJ Questions on back of page