Note: given the fact that you’re ‘obliged’ to answer the weekly questions, try to profit the most from the task:

- Start by reading the slides (**twice**).

- Then, **leave the notes aside** and answer the questions **(I do not value answers that are transcriptions of the lecture notes).** If you do this, you’ll have to study much less before for the tests.

Reserve 4 hours per week to answer the questions. Hand the **answers** at the next lecture at ISEG.

Reserve **4 hours per week** to answer the questions. If you answer them in a serious way, you’ll need to study much less for the exam.

**Warning:** in June you’ll have **exams of about 5 different courses** **in just two weeks.** Therefore, if you do not study properly while answering the weekly questions, your chances of passing this course will be much lower.

Please write **WEEK 10 in bold** at the beginning of your answers.

**Week 10**

**L19: Internal operation of a firm**

**1.**What’s the difference between a private limited company and a public company?

**2.** Present numbers that show the importance of SMEs in the Portuguese economy.

**3. a)** What is an insolvent firm?

b) What leads to a firm’s insolvency?

c) What happens when a firm is subject to an insolvency procedure?

**4.** Explain why a bank of many insolvent firms may be forced to shrink the amount of credit it extends to the economy.

5. Why do creditors want that an insolvent firm is subject to an insolvency procedure as soon as possible?

Why do creditors prefer that companies invest in relatively safe projects? Do not answer: not explained this year.

Why do shareholders prefer that their companies invest in less safe projects? Do not answer: not explained this year.

**6.** Even if their remuneration was restricted to fixed salaries, top managers of a company would not neglect the management of their companies. Why?

**7.** If the salaries of top managers are partly paid in stocks, they’ll have some incentive to maximize profits. Why?

**8. a)** What is a call stock option?

b) Why does a call option has a price?

c) What is a put stock option?

**9.** What happens to the owner of a call stock option if the price of the respective stocks falls below the initial price? Explain.

**10.** If the salaries of top managers are partly paid in stock options, they’ll have even more incentive to maximize profits. Why?

**11.** a) Which are the three components of the pay package of top executives?

b) What’s the rationale behind that mix?

**14. a)** What was the Diesel Gate of 2014?

**b)** In which way did the incentives faced by the VW’s CEO lead to that?

**L20: Conclusion of the last lecture + diversification**

**Conclusion of the last lecture**

**15.** a) How do promotions incentivize workers to improve their performances?

b) Why aren’t they fair to some workers?

**16.** a) What is the market wage of a certain profession?

b) What happens if a firm pays a worker a wage above the market’s wage? Explain.

c) What happens if a firm pays a worker a wage equal to the market’s wage? Explain.

**Diversification**

17.What is a holding? Give one example.

18. What are the three features of the introduction stage of the life cycle of a product?

19. What are the three features of the growth stage of the life cycle of a product?

20. Why do companies in the growth stage of the life cycle of a product need a lot of money? Do they have it? Explain.

21. Why do companies in the mature stage of the life cycle of a product have a lot of money? Do they need it? Explain.

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22. Why does a Star need a lot of money? And a Question Mark (QM)?

23. Stars and QMs generate little money but for different reasons.” Do you agree? Explain.

24. Why is the life of a Star easier than that of a QM?

25. a) What are the two features of a mature market?

b) Why does a Cash Cow (CC) generate a lot of money?

c) What does it make little sense for a CC to spend a lot of money in publicity?

d) What does it make little sense for a CC to spend a lot of money in building capacity?

d) Why the name Cash Cow?

26. a) Which problem is face by a company with only a CC?

b) Which problem is face by a company with only a Star?

c) How can those two problems solved at the same time?

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27. a) Why does diversification reduce the risk of a company?

b) Do the owners of the company benefit *directly* from that risk reduction? Explain.

c) Do the top managers of the company benefit from that risk reduction? Explain.

28. Shareholders may benefit *indirectly* from the reduction in the risk of a company brought about by diversification. Explain the two reasons for that.

29. Why may it make sense for a company to manufacture ice-creams and nuts?

30. Give one reason why Sonae diversified from supermarkets into shopping centers.

31. Why did Calvin Klein started to produce perfumes?

32. In which way may the R&D of a company lead to diversification?