International Corporate Governance 2011 Exam
Saturday, April 16, 2011
Exam time: 5 hours

Maximum score is 70 points. Minimum required to pass the exam is 35 points. Avoid answers beyond two pages. Please write as clearly as possible.

1. Recent research shows that family ownership is rather common in publicly traded firms. Discuss performance consequences of different forms of founder and family ownership and control reported in recent empirical research. [e.g., Fahlenbrach, 2009; McVeh and Draho, 2005]

   (25 p)

2. Djankov et al. (2008) give an example of a self-dealing transaction (see Figure 1 on page 2). Suppose Mr. James would own 80% of Seller's shares and 40% of Buyer's shares. If Buyer overpaid EUR 100 000 for the trucks in this case, how much would Mr James' wealth be affected? How does the regulation of such a self-dealing case differ between civil law countries (such as Italy) and common law countries (such as the UK) (Djankov et al, 2008).

   (25 p)

3. Answer either 3a or 3b.

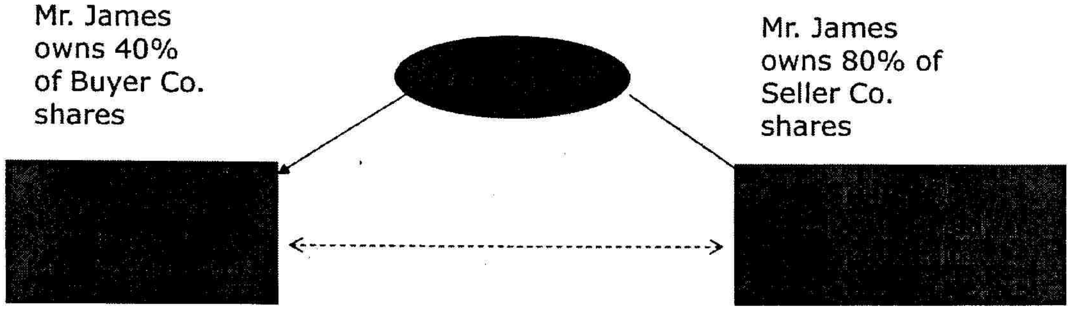
   (a) Discuss the efficiency of state ownership from a corporate governance perspective (e.g., Shleifer and Vishny, 1997).

   (b) Brav et al. (2008) analyze shareholder activism by hedge funds. Discuss characteristics of firms targeted by such activist shareholders and the performance consequences for target firms. [Brav et al., 2008]

   (20p)

Good luck!

Figure 1.



- As the controlling shareholder and a board member of Buyer Co., James has elected 2 additional members to the 5-member board.
- Junior is Mr. James' son and the CEO of Buyer.
- Seller recently shut many of its stores, and therefore its fleet of trucks is not being utilized.
- Transaction: Mr. James proposes to Buyer that Buyer purchase Seller's unused fleet of trucks to expand Buyer's distribution of its food products -> Buyer agrees. The final terms: Buyer pays Seller in cash an amount equal to 10% of Buyer's assets for the trucks. The transaction is part of Buyer's ordinary course of business.
- Buyer enters into the transaction. All required approvals are obtained and all the required disclosures made. The transaction may be unfair to Buyer Co. Minority shareholders in Buyer Co. sue the interested parties and the approving body.