16 ENVIRONMENTAL SOC...NS IN INVESTMENT ANALYSIS

1. Which of the following least accurately describes one of the non-traditional "ESG" business factors that may be critical to a company's long-term sustainability?
   (A) governance risk exposures.
   (B) environmental risk exposures
   (C) security risk exposures

2. Which of the following scenarios is NOT an example of a principal-agent problem?
   (A) A board member also serves as a consultant to the company.
   (B) Top management is awarded large amounts of executive stock options.
   (C) A senior manager also serves as a director on the board of another company.

3. Which of the following would be least likely to help control the principal-agent relationship (PAR) problem?
   (A) Alter the behaviour of executives through goal setting.
   (B) Increase the asymmetry of information between the owners of the firm and the employees.
   (C) Fire employees who misbehave.

4. All of the following are examples of the principal-agent relationship (PAR) problem EXCEPT:
   (A) two members of a board of directors are having an illicit relationship.
   (B) a senior executive routinely leaves the office early claiming to work from home yet there is no accountability.
   (C) an employee calls in sick to use up their sick time since they cannot carry it over to the next year.

5. Which of the following best describes the principal—agent problem? An example of the principal — agent problem is when:
   (A) owners of the firm gain at the expense of the employees.
   (B) a board of directors take advantage of their position at the expense of the shareholders.
   (C) a lawyer recommends protracted legal proceedings to her client.

6. The boards in a two-tier board of directors are most likely to be structured as a:
   (A) executive board and a non-executive board.
   (B) external board and an internal board.
   (C) supervisory board and a management board.

7. In the process of identifying and evaluating ESG-related risk exposures and investment opportunities, there is greatest consistency across companies in considerations related to:
   (A) environmental.
   (B) corporate governance.
   (C) social.

8. CEO duality exists when the chief executive officer:
   (A) is simultaneously realistic and optimistic.
   (B) also serves as chairperson of the board.
   (C) also has a controlling interest in the firm.

9. Regarding the process of evaluating ESG risk exposures and investment opportunities related to a company, it is least likely that ESG integration will be used in:
   (A) equity analysis to identify downside risk.
   (B) fixed-income analysis to identify upside opportunities.
   (C) fixed-income analysis to identify downside risk.

10. Hernandez is most likely to encounter principal—agent problems when analyzing a company with an ownership structure that combines:
   (A) dispersed ownership and concentrated voting power.
   (B) dispersed ownership and dispersed voting power.
   (C) concentrated ownership and concentrated voting power.

11. Hernandez is analyzing the securities of a company that has mutual business interests with another company. Two firms have cross-holding share arrangements with each other. Hernandez could best describe this structure as:
   (A) pyramid ownership.
   (B) horizontal ownership.
   (C) vertical ownership.

12. Rodriguez points out to Hernandez that CEO duality is present in one of the firms that Hernandez is analyzing. It would be most accurate for Hernandez to describe CEO duality as the scenario where the chief executive officer also serves as the firm's:
   (A) chief operating officer.
   (B) president.
   (C) chairperson.

13. When integrating corporate governance and ESG factors in investment analysis, Hernandez is least likely to face which of the following challenges?
   (A) ESG information and metrics are inconsistently reported by companies, and such disclosures are voluntary.
   (B) It is difficult to identify and obtain ESG information that is relevant and useful.
   (C) Corporate governance considerations, such as the structure of the board of directors, tend to be inconsistent across most companies.

14. The principal-agent problem can best be described as:
   (A) the agent may act for the well-being of management rather than that of the stakeholders.
   (B) the agent may act for his own well-being rather than that of the principal.
   (C) the agent may act for the well-being of the principal rather than that of the stakeholders.

15. A principal-agent problem may exist between:
   (A) regulators and directors.
   (B) shareholders and directors.
   (C) managers and directors.