The answer to the question is highlighted in red. Explanations are highlighted in green.

7. Which of the following statements concerning a firm's quest to maximize wealth is correct?
   a. In extremely competitive industries, we would expect firms would voluntarily engage in many socially beneficial projects to try to maximize their stocks' values.
      Such projects cost money, so firms would not engage in such activity unless mandated by the government.
   b. Actions that maximize a firm's stock price are inconsistent with maximizing social welfare.
      A firm cannot succeed unless social welfare is considered.
   c. The concepts of social responsibility and ethical responsibility on the part of corporations are completely different and neither is relevant in maximizing stock price.
      Social responsibility and ethical responsibility are very important ingredients of wealth maximization.
   d. In a competitive market, if a group of firms does not spend resources making social welfare improvements, but another group does, in general, this will not affect the second group's ability to attract funds.
      The group that spends money on social issues will be at a disadvantage compared to the other firm—the firms that spends the additional money will have a lower net income.
   e. If the government did not mandate socially responsible corporate actions, such as those relating to product safety and fair hiring practices, most firms in competitive markets probably would not pursue such policies voluntarily.
      See the previous answers.

RETURN TO THE SAMPLE QUESTIONS