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**QUESTION 1**

**Harwood Medical Instruments PLC**

1. What was the purpose of the change?
2. Calculate the bonus earned by each manager for each six-month period and for the year 2010.
3. Evaluate the new plan. Is there any evidence that it produced the desired effects? What changes to the new plan would you suggest, if any?

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**Superconductor Technologies, Inc**

1. Assume that you, as an STI employee, were awarded options on 1,000 shares of STI stock today at the current market price.

1. Without doing a detailed numerical calculation, make your best-guess estimate as to the economic value of this option grant. What factors did you consider in making your

estimate?

1. Would this option grant likely affect any of your behaviors? If so, how?

2. Evaluate the performance measurement and incentive system that STI uses for its top-30 managers. Among the questions you should consider:

1. Will the system attract managers’ attention and influence behavior in the desired ways?
2. Is the system achieving other (non-motivational) purposes which it is also intended to

serve?

1. Is each of the elements worth the cost?
2. Is the mix of rewards optimal?
3. What changes would you recommend, if any?

3. Should the accounting rule change requiring the immediate expensing of the value of stock

options granted (which has now happened) cause STI to make any changes to its system? If

so, which?

4. Will STI have to make changes to its system when it expands internationally and employs

managers in locations such as London and Shanghai? If so, which?