

Tenttipäivä / Date: 19.2.2015

Opintojakson koodi, nimi ja tentin numero / The code and the name of the course and number of the exam:  
721963S Corporate Finance

Tentaattori(t)/ Examiner(s): Markku Vieru

Sallitut apuvälineet rastitettu/ The devices allowed in the exam

Laskin (ei graafinen/ohjelmoitava)/Calculator (not graphic, programmable) Sallittu/Allowed

Sanakirja/Dictionary: Ei sallittu/Not allowed

Voit vastata tenttiin / You may answer the questions: suomeksi/ in Finnish: kyllä/Yes,  
englanniksi/ in English: kyllä/Yes

Kysymyspaperi on palautettava / Paper with exam questions must be returned: Ei/No

Please answer to the following questions using full sentences. Your grade will be determined by how well you demonstrate your knowledge of the facts and your understanding of those facts in a greater context. Probably you know the answer but your ability to communicate that knowledge depends also on how well you structure your answer.

1.
  - a) Describe how pooling equilibrium and separation equilibrium is related to costly signaling in corporate finance and describe under which conditions costly signaling is beneficial for the firm.
  - b) In the text book and in the course material there has been presented various ways how a firm can send a costly signal to outsiders. Describe briefly four (4) different types of signals, and analyse what kinds of messages they are supposed to send to the market.
  - c) How conflict between current and prospective shareholders can affect firm's investment decision according to Myers and Majluf (1984). Please explain.
2.
  - a) Shefrin and Statman (1984) develop a behavioural explanation for why some investors prefer cash dividends over capital gains. Please explain why some investors perceive dividends attractive based on Shefrin and Statman (1984).
  - b) Let's assume that for marginal taxpayer (who set the price) who is receiving dividend, the tax rate is 25% and for capital gains the marginal tax rate is 30%. When the share goes ex-dividend do you expected that share price decline at the same amount as the size of dividend? What is more reasonable prediction? Please provide your percentage prediction.
3. There are different theories which try to explain capital structure decision of the firm.
  - a) How agency costs of debt and agency costs of external equity can effect capital structure decision? Please explain how asset substitution is related to agency costs.
  - b) How trade off theory explains firm's capital structure? Please explain how firm size is assumed to relate to capital structure according to trade off theory.
  - c) How market timing theory explains firm's capital structure? Please explain how IPO can affect firm's capital structure according to market timing theory.
  - d) How pecking order theory explains firm's capital structure?
4. The total gains (or losses) from mergers and acquisitions (M&As) can vary depending on motives.
  - a) Please classify the motives into three categories with the expected signs (i.e. gain or loss) and analyze each motive (with at least two specific examples) where the gains can come from.
  - b) Is it likely that the total gains distribute evenly between acquirer and target firm? Please explain.