Taloustieteiden tiedekunta
Tenttipäivä / Date: 13.5.2015
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) Please define the terms pooling equilibrium and separation equilibrium based on our course material. How they are related to costly signaling in corporate finance and describe under which conditions costly signaling is beneficial for the firm.
   b) How conflict between shareholders and managers can affect firm's investment decision according to Jensen's (1986) free cash flow hypothesis? Does issuance of debt mitigate the conflict? Please explain.
   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 behavioural explanations 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%. Share price before the stock goes ex-dividend is 20 and dividends on stock is 2. When the share goes ex-dividend the expected share price decline is not the same as the size of dividend (Elton and Gruber, 1970). Please calculate more reasonable prediction of new ex-dividend share price using tax preference ratio?
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 debtholder tries to mitigate agency costs of debt.
   b) How static 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. Does the IPO have a long or short term effect on firm's capital structure if capital structure is solely based on market timing theory? Please explain.
   d) If the firm has financial deficit how it tries to finance the deficit according to pecking order theory? Please explain.
4. CEO overconfidence may provide one explanation for poor M&A performance.
   a) Describe what is meant by overconfidence. Can it be measured and how?
   b) How Malmendier and Tate (2008) explain why it is likely that CEOs are overconfident?
   c) Describe how good corporate governance can mitigate problems related to CEO overconfidence.