Taloustieteiden tiedekunta

Tenttipäivä / Date: 12.6.2015
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 does the conflict between shareholders and managers affect firm's investment decision according to Jensen's (1986) free cash flow hypothesis? Does the issuance of debt mitigate the conflict? Please explain.
   c) How does the conflict between current and prospective shareholders affect firm's investment decision according to Myers and Majluf (1984)? Please explain.
2. The dividend change announcement can affect the share price.
   a) Analyze how Miller and Rock (1985) explains the reason why the payout announcement does (does not) convey information to the market.
   b) Please give arguments why dividend initiation can have either a negative or positive share price effect? Is there empirical evidence available?
   c) Let's assume that dividends are taxed at a higher rate than capital gains. When the share goes ex-dividend do you expect that share price declines at the same amount as the size of dividend? What is more reasonable prediction? Please explain.
3. There are different theories which try to explain the capital structure decision of the firm.
   a) How do the agency costs of debt and the agency costs of external equity affect capital structure decision? Please explain how the debtholder tries to mitigate the agency costs of debt.
   b) How does static trade off theory explain firm's capital structure? Please explain how firm size is assumed to relate to capital structure according to trade off theory.
   c) How does the market timing theory explain firm's capital structure? Please explain how IPO can affect firm's capital structure according to market timing theory (Baker & Wurgler 2002).
   d) If the firm has a financial deficit how does the firm try to finance the deficit according to pecking order theory? Please explain.
4. Roll (1986) wrote that "*we still do not fully understand the motives behind mergers and tender offers or whether they bring an increase in aggregate market value.*" This suggests that the total gains (or losses) can vary depending on motives.
   a) Please classify the motives into three main categories (Berkovitch & Narayanan 1993) with the expected signs (i.e. gain or loss) and analyze each motive (with at least two specific examples) where the gains (or losses) can come from.
   b) Please explain how professional and social ties can affect the outcomes of M&A.