



YLIOPISTOTENTTI - UNIVERSITY EXAM

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| Opiskelijan nimi / Student name: | Opiskelijanumero / Student number: |
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Opettaja täyttää / Lecturer fills in:

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| Opintojakson koodi and nimi / The code and the name of the course: Koodi / Code 721963S Tentin nimi / Name Corporate Finance | |
| Tiedekunta / Faculty: OyKKK | |
| Tentin pvm / Date of exam: 7.4.2016 | Tentin kesto tunteina / Exam in hours: 4 |
| Tentin nro / No. of the exam: Exam, 2 <small>(esim. Tentti, 1. uusinta, 2. uusinta / e.g. Exam, 1. retake, 2. retake)</small> | Opintopistemäärä / Credit units: 6 cr |
| Tentaattori(t) / Examiner(s): Markku Vieru | Sisäinen postios. / Internal address: OyKKK, Markku Vieru |
| Sallitut apuvälineet / The devices allowed in the exam: <input checked="" type="checkbox"/> Nelilaskin / Standard calculator <input checked="" type="checkbox"/> Funktiolaskin / Scientific calculator <input type="checkbox"/> Ohjelmoitava laskin / Programmable calculator <input type="checkbox"/> Muu materiaali, tarkennettu alla / Other material, specified below: | |
| Tenttiin vastaaminen / Please answer the questions: <input checked="" type="checkbox"/> Suomeksi / in Finnish <input checked="" type="checkbox"/> Englanniksi / in English | |
| Kysymyspaperi on palautettava / Paper with exam questions must be returned: <input type="checkbox"/> Kyllä / Yes <input checked="" type="checkbox"/> Ei / No | |

Vastaa kaikkiin neljään kysymykseen. Käytä vastauksissasi kokonaisia virkkeitä. Menestystä.

Answer to all four questions. Please answer using full sentences. Good luck.

1.
 - a) Describe what is meant by costly signaling in corporate finance and under which conditions costly signaling is beneficial.
 - b) In the text book and in the course material there are presented various ways how a firm management can signal to outsiders. Describe briefly four (4) different types of signal, describe their logic and explain what kind of message 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. There are different theories which try to explain capital structure of the firm.
 - a) Please explain how agency costs of debt and agency costs of external equity can effect capital structure decision? Please explain how the debtholders and equityholders try to mitigate their agency costs.
 - b) How trade-off theory explains firm's capital structure? Please explain how earnings volatility is related to capital structure according to trade-off theory.
 - c) How market timing theory explains firm's capital structure? Any empirical evidence using IPOs?
3.
 - 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) Koch and Sun (2004) contributed Miller and Rock's (1985) study why dividend change announcement can convey information to the market. Please explain their contribution.
 - c) Let's assume that marginal taxpayer (who sets the price) owns one stock and is receiving dividend of €1. The tax rate for dividend is 25% and for capital gains the marginal tax rate is 30%. When the share goes ex-dividend do you expected that share price change at the same amount as the size of dividend? What is your reasonable prediction using Elton and Gruber (1970) for ex-dividend share price. The share price before the stock goes ex-dividend is €10.
4. CEO overconfidence may provide one explanation for poor M&A performance.
 - a) Describe what is meant by overconfidence and how CEO overconfidence is measured in the corporate finance literature.
 - b) How Malmendier and Tate (2008) explain why it is likely that CEOs are overconfident?
 - c) Describe corporate governance implications of Malmendier and Tate (2008) related to evidence of CEO overconfidence.