



YLIOPISTOTENTTI - UNIVERSITY EXAM

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

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: 13.6.2016	Tentin kesto tunteina / Exam in hours: 4	
Tentin nro / No. of the exam: Summer retake <small>(esim. Tenti, 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 i) how entrepreneur can signal project quality with investment (Leland & Pyle 1977), ii) how firm quality can be signalled with debt (Ross 1977), and iii) how expected cash flows can be signalled with dividends. Please 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? How Baker and Wurgler (2002) test market timing theory 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) Please describe how catering theory of dividends by Baker and Wurgler (2004) tries to explain firm dividend policy. How it is tested?

4. There are various reasons for poor M&A performance. Describe using financial literature how
 - a) agency problems can be related to poor M&A performance,
 - b) CEO overconfidence can be related to poor M&A performance,
 - c) CEO's professional and social ties can be related to poor M&A performance.