

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 / Exam name	Corporate Finance
Tiedekunta / Faculty:	OyKKK
Tentin pvm / Date of exam: 21.2.2018	Tentin kesto tunteina / Exam in hours: 3 h
Tentaattori(t) / Examiner(s): Markku Vieru	Opintopistemäärä / Credit units: 6 cr
	Sisäinen postios. / Internal address: OyKKK, Markku Vieru
Sallitut apuvälineet / The devices allowed in the exam:	
<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
Suomenkielisessä tutkinto-ohjelmassa olevalla opiskelijalla on oikeus käyttää arvioitavassa opintosuorituksessa suomen kieltä, vaikka opintojakson opetuskieli olisi englanti. Tämä ei koske vieraan kielen opintoja. (Kts. <u>Koulutuksen johtosääntö 18 §</u>)	
In a Finnish degree programme a student has a right to use Finnish language for their study attainment, even though the language of instruction is English, (excluding language studies) even when the language of instruction is other than Finnish. (See <u>the Education Regulations 18 §</u>)	
Kysymyspaperi on palautettava / Paper with exam questions must be returned:	
<input type="checkbox"/> Kyllä / Yes	<input checked="" type="checkbox"/> Ei / No

INSTRUCTION for a student who have attended the 1st or 2nd Mid Term Exam:

If you prefer that your points earned in the 1st Mid Term Exam are taken into account in course grading please answer **only** to questions 3 and 4. In this case, write in your answer sheet: *"I prefer that my points earned in the 1st Mid Term exam are taken into account"*.

Likewise, if you prefer that your points earned in the 2nd Mid Term Exam are taken into account in course grading please answer **only** to questions 1 and 2. In this case, write in your answer sheet *"I prefer that my points earned in the 2nd Mid Term exam are taken into account"*.

Good luck.

INSTRUCTION for the rest of the students:

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

OHJE jos olet osallistunut 1. tai 2. välikokeeseen:

Jos haluat, että 1. välikokeessa saamasi pisteet huomioidaan osana kurssiarvostelua, vastaa **vain** kysymyksiin 3 ja 4. Tässä tapauksessa kirjoita vastauspaperiisi *"Haluan, että arvostelussa huomioidaan 1. välikokeessa saamani pisteet"*.

Vastaavalla tavalla jos haluat, että 2. välikokeessa saamasi pisteet huomioidaan osana kurssiarvostelua, vastaa **vain** kysymyksiin 1 ja 2. Tässä tapauksessa kirjoita vastauspaperiisi *"Haluan, että arvostelussa huomioidaan 2. välikokeessa saamani pisteet"*.

Menestystä.

OHJE muille opiskelijoille. Vastaa kaikkiin neljään kysymykseen. Käytä vastauksissasi kokonaisia virkkeitä. Menestystä.

QUESTIONS

1. a) Various theories how a firm can signal to outsiders are presented in the text book and in the course material. Describe
 - i) how the entrepreneur can signal project quality with investment (Leland & Pyle 1977),
 - ii) how firm quality can be signalled with debt (Ross 1977), and
 - iii) how dividends can signal firm quality (e.g. Miller and Rock 1985).
 Explain what kind of message each signal is supposed to send to the market.

b) How conflict between current and prospective shareholders can affect firm's investment decision according to Myers and Majluf (1984). Please explain.

(continue in the following sheet)

2. There are different theories which try to explain the capital structure of the firm.
 - a) Do the trade-off theory predict that the firm has a target capital structure? Please explain.
 - b) Do the pecking order theory predict that the firm has a target capital structure? Please explain and provide empirical evidence.
 - c) Do the market timing theory (Baker and Wurger 2002) predict that the firm has a target capital structure? Please explain and provide empirical evidence.

3.
 - a) Shefrin and Statman (1984) develops behavioural explanations for why some investors prefer the cash dividend over capital gains. Please explain why some investors perceive dividend attractive based on Shefrin and Statman (1984).
 - b) Explain the effect of the dividend clienteles on dividends.
 - c) How does the catering theory of dividends explain the firm's dividend policy (Baker and Wurger 2002)

4. The acquirer can finance the M&A using cash or its own stock as a currency.
 - a) In which situations are these used and why?
 - b) How does the managerial overconfidence can affect the choice? Any empirical evidence?