

4532 Spring 2005 Exam 1 Answers

Open book

1. Maximize shareholders wealth.
2. E
3. B
4. contracting, monitoring, misbehavior
5. B
6. A
7. She hoped the banker would help her sell the firm at a higher stock price than the current price. Instead the banker is suggesting she declare bankruptcy or he (or possibly some other creditor) will demand full payment.
8. Your friend was lazy, and recently began to substitute high risk projects for the low risk projects expected by the banker. The banker blames himself for the lack of oversight; which allowed this unexpected agency cost to occur.
- 9.D
- 10.D
- 11.A
12. The stock price of Level 3 increased after it eliminated an anti-takeover provision.
13. merger/consolidation and acquisition of stock.
14. statistical measure used to predict bankruptcy, score is based on financial ratios.

Closed Book

1. a. $3000000 * 32.50 = 97,500,000$
b. 8
c. $(32.50 - 30) / (8 + 1) = \2.777
d. $97500000 + (375000 * 30) = 108,750,000$ which implies 32.22 per share.
2. a. $275 + 240 + 25 = 540$
b. $540 - 275 - 240 - 8 - 5 = 12$
3. a. $40 * 1.1 / 30 = 46.66\%$
b. 26.66%
4. Peta stock price 37.50
Nofer stock price 9.60
Combined company shares (21680), p/e (18.47), eps (2.0295), stock price (37.50)
5. Chapter 7, because the liquidated value exceeds the reorganized value by \$38.30
6. 10.42%, which is less than the discount rate and another reason to liquidate.