

Spring 2006 Exam 1 Answer Key

Closed Book

1. 1) Maximize firm value, 2) maximize the firm's stock price
2. 1) firm might make negative NPV acquisitions as that would increase size of firm,
2) firm would avoid paying dividends as that lowers stock price by amount of dividend.
3. B
4. A
5. A contract that minimizes the sum of the three types of agency costs
6. A
7. B
8. C
9. The takeover bid is holding out on me, but I am concerned about other people taking advantage of me. The banker I met said he could give a court ruling of automatic stay which he can't, only a judge can. This statement means nothing, it is nonsense.
10. The banker formed a group of investors that will give her the court order of not having to pay the debts she owes. Then they would file bankruptcy under a non-existing bankruptcy chapter, which would force distribution of assets in legally defined order while stopping the judge from ordering the distribution of assets in a judge's defined order. This statement means nothing, it is nonsense.
11. A
12. A
12. B
13. Acquisition of assets
14. The Z score is a financial ratio that can predict bankruptcy using other financial ratios.
15. Human capital is the present value of a worker's skills and attributes, essentially the present value of expected future wages. It is a major cause of agency costs, as it is often a person's largest assets and due to the difficulty in diversifying human capital.

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1. a. 7.4%
- b. 10.5%
2. a. $.20 = (26 - S) / (N + 1)$ $(35 / N) * S = 50$
 $.2N + .2 = 26 - S$ $35 * S = 50N$
 $.2N = 25.8 - S$
 $S = 25.8 - .2N$
 $35(25.8 - .2N) = 50N$
 $903 - 7N = 50N$
 $903 = 57N$
 $N = 15.84 = 16$
 $S = 25.8 - .2(16)$
 $S = \$22.6$ cost of subscription
- b. 16
- c. $R = (24 - 22.6) / 17$

$$R = \$0.08$$

3. $390 - 230 - 145 - 24 = -9$

No they shouldn't because their will be no benefit because the premium cost more than the synergistic effect.

4. Peta Stock price = 9.18

Nofer Stock = 11.00

Combined Stock Price = 9.18

Combined stock = 104,878

Combined P/E = 4.73

Combined EPS = 1.94

5. a. $npv = 17, -220, \{14, 15, 36, 27, 238\}$

$Npv = -51.64$

They should file chapter 7 because they will have an npv of \$220 million by filing now, versus an NPV of 168.36 million by reorganizing.

b. they would have an irr of 9.81% which is 7.19 less than their discount rate, again says to file Chapter 7.

6. Any answer between $(27 * (1 + 50\%))$ and $(27 * (1 + 66\%))$, basically \$40.50 to \$44.82 per share. Also, firm values were accepted as correct answers.

7. Accts pay = 133.429

Notes Pay = 80.0

Accrued wages = 14.3

Senior sub = 54.8

Senior conv = 51

Debentures = 18.19

Preferred stock = 0

Common stock = 0

RE = 0