



Carleton University

BUSI 4500 A & B

Advanced Corporate Finance

Winter 2012 Mid term test

Name: _____ Student # _____

Instructions

1. Write your name and student number in the space provided above with a pen or ballpoint pen.
2. The questions must be answered within the context of papers that we covered in the course. In your answers, you may refer to papers discussed in class. However, answers to the questions do not require any reading beyond the papers covered in the course and the discussions in the class. Please refrain from referring to papers that you may have read for your research project.
3. This is a **3-hour** exam. Answer **All** questions coherently. **Answers need not be long** and can be answered in point form if you wish as long as the points are full sentences.
4. The intent of the exam is to evaluate whether or not you have understood the main aspects of the topics covered in class and in the assigned readings.

Question 1 (20 marks)

Most governance mechanisms have little limitations and have proved to be extremely effective in aligning different stakeholders' interests and in maximizing firm value. Critically examine this statement with an emphasis on whether/and how corporate governance issues have played a major role in the recent financial crisis. (15 marks)

State and discuss at least one empirical issue that researchers face when using event studies to examine the impact of changes in corporate governance.

(5 marks)

Question 2 (15 marks)

Behavioral finance has recently come to prominence within the finance field in recent years. Discuss how behavioral finance can explain some of the market anomalies and show how managerial biases can affect corporate decisions.

Question 3 (15 marks)

- a) A number of capital structure theories that relax the unrealistic M&M assumptions have been suggested. Describe how theories based on asymmetric information affect the capital structure of a firm. What are the implications of such theories? What are the stylized facts that these theories are able to explain? (10 marks)
- b) Describe at least one empirical methodology that has been used in the literature to test one (or multiple) capital structure theories. Specify the empirical formulation. (5 marks)

Question 4 (20 marks)

- a) Your friend claims that takeover announcements produce positive abnormal returns for target firms. Design an event study to test whether or not your friend's assertion is correct. This design must include sections on introduction (including motivation and objective of the study), hypotheses, data sources, empirical research technique(s), and statistical tests (parametric and non-parametric) to test for any market reaction, and using cross-sectional analysis to gain further insights. Make sure your design is related to the announcement. (15 marks)
- b) Assuming that the study was well designed and well executed but your friend found no significant abnormal returns. He was very surprised that he did not find significant results. How would you account for the lack of significance of the results? (5 marks)

Question 5: (15 marks)

- a) It has been argued that IPOs are expensive corporate undertakings. State at least three different sources of such costs (costs could be direct or indirect). Why do firms decide to go public despite these costs? (6 marks)
- b) List and discuss three hypotheses that explain why entrepreneurs usually leave too much money on the table (9 marks)

Question 6: (15 marks)

- a) Without synergies, there would be no mergers and acquisitions'. Critically examine this statement. (7 marks)
- b) The evidence concerning bidder's reaction to takeover announcement suggests that unlike stock finance acquisitions, announcement of cash financed acquisitions elicit positive stock market reaction because such announcements send a positive signal to the market. Discuss 4 different signals that cash offers send to the market. Note that the cash could be generated from any source. (8 marks)