

1. What is winner's curse?
2. How to use Prospect theory to explain IPO underpricing?
3. What is prospect theory and how to use the theory to explain IPO underpricing?
4. International New Network (INN) inc earns \$2 million dollars per year. It has 1 million shares outstanding. Current price per shares is \$20. The firm wants to raise \$5 million shares in new equity by a rights issue. Subscription price is \$10.  
What price should existing shareholders be allowed to pay for a share of new stock?  
How many rights should be required to purchase one share of stock?
5. Prove put-call parity.
6. You should know all the payoff graphs in the slides by heart.
7. Option premium should be higher or lower than intrinsic value? Why?
8. Draw the payoff graph for long straddle.  
Strike prices for both put and call are \$50, option premiums for both put and call are \$10.
9. Give one example that M&A is a cost for shareholders of acquiring firms.
10. Suppose Firms A and B have separate values of \$500 and \$100 respectively. Combined firm AB has value of \$700 because of \$100 synergy. Board of directors of B has indicated that they will sell the firm for \$150 in cash.  
If A buys B using its retained earnings then  
What is the NPV of the takeover?
11. Continue question 12. If it is a share takeover, what is the percentage of newly issued shares as compared to the total share after the takeover?
12. Why anti-takeover tactics usually yield bad governance? Give three examples of those tactics.
13. What is (are) the agency problem(s) for managers in targeted firms?
14. What are poison pills?
15. Sources of Synergy
16. Name three types of cost of issuing equity.