

1. What are the two key conditions of signaling?
2. Madoff, CEO of Rip-Off Inc, is evaluating his firm's capital structure. He expects that Rip-Off Inc will have perpetual EBIT of \$850,000. The after tax return on Rip-Off, if it were all equity firm, is 9.7%. Currently the firm has \$1.7 million debt outstanding and is subject to a corporate tax rate of 39%. The personal tax rate on interest income is 17.5% and the personal income tax rate on equity distribution is zero. The present value of combined distress and agency costs associated with debt are approximately 6% of the total value of the debt.  
 A) What is the value of the firm?  
 B) What is the added value of Rip-off's debt?
3. What is prepackaged bankruptcy? What is the main benefit of prepackaged bankruptcy?
4. Peter Parker owns 460 shares in Daily Bugle Inc (DB Inc). Daily Bugle will pay \$2 per share dividend after one year. After two years, Daily Bugle will pay a *liquidating dividend* of \$18.5673. The required rate of return on DB is 13%.  
 A) What is the current price of one share of DB Inc?  
 B) Peter Parker wants to receive equal amounts of money in each of the next two years. How many shares should he buy or sell at time one to achieve it.
5. What is winner's curse?
6. What is prospect theory and how to use the theory to explain IPO underpricing?
7. 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?
8. Prove put-call parity.
9. Option premium should be higher or lower than intrinsic value? Why?
10. 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.
11. Give one example that M&A is a cost for shareholders of acquiring firms.
12. Suppose Firm 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?
13. 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?

14. Why anti-takeover tactics usually yield bad governance? Give three examples of those tactics.
15. What is (are) the agency problem(s) for managers in targeted firms?
16. What are poison pills?