Universität Hamburg
DER FORSCHUNG | DER LEHRE | DER BILDUNG

School of Business, Economics and Social Sciences
Department of Business Administration
Chair of Corporate Finance and Ship Finance
Prof. Dr. Wolfgang Drobetz

Examination

Investment Banking and Capital Markets

Mock Exam

Personal information:

Name: ______________________ First name: ______________________

Date of birth:__ __/__ __/__ __ __ __ Semester: __ __ Student number:__ __ __ __ __ __ __ __

E- Mail: ____

Instructions (please read carefully):

- During the exam, you are permitted to use (i) a non-programmable calculator and (ii) an English dictionary. Further materials are not allowed.
- The examination document consists of 7 pages (including the front page) and contains 3 questions.
- The examination is scheduled for 60 minutes.
- Questions can be answered either in English or German (stick to one language over the entire exam).
- Answer all questions and show necessary work. Please be brief but precise, explain symbols, and outline your calculations. If necessary assumptions are missing, make reasonable economic assumptions to answer the question.

Declaration:

I hereby declare the veracity of all personal information provided and confirm that I carefully read the given exam instructions.

Date:__ __/__ __/__ __ __ __ Signature: ______________________

Completed by the chair:

Question	**1**	**2**	**3**
Points			

Question 1: Mixed questions (25 Points)

a)

Explain three control mechanisms that minimize excessive managerial consumption. (6 Points)

b)

Short-run underpricing is a phenomenon that often occurs during Initial Public Offerings. Briefly explain two major explanatory approaches for short-run underpricing. (5 Points)

c)
What are the most important characteristics of venture capital financing? Briefly outline four reasons why debt financing is not suitable for young firms. (7 Points)

d)
Explain how the existence of the pecking order theory can be justified. Why can equity be found both on the top and the bottom of the pecking order? (7 Points)

Question 2: Initial Public Offerings (15 Points)

a)

Explain the bad-model problem when measuring long-term abnormal returns of Initial Public Offerings (IPOs). Which misleading inferences can potentially be drawn from studies measuring long-term abnormal returns and how could this problem theoretically be circumvented? (7 Points)

b)

Discuss three reasons for the cyclicality of the Initial Public Offerings (IPO) volume. Explain why firms usually go public after a general increase in share prices and link this observation to the efficient market hypothesis. (8 Points)

Question 3: Acquisitions, Divestures, and Restructuring (20 Points)

a)

The results shown in the following table are motivated by the paper of T. Loughran and A. Vijh, 1997, Do Long-Term Shareholders Benefit from Corporate Acquisitions?, *Journal of Finance* 52, 1765-1790. (15 Points)

	Five-year post-transaction buy-and-hold abnormal returns of acquiring firms		
Form of payment	Mergers	Tender offers	All acquisitions
Stock	-25.0 *	-36.1	**-24.2 ***
Cash	-4.9	61.7 *	**18.5 ***
All	-15.9 *	43.0 *	**-6.5**

*indicates significance at the 5%-level

i. Explain why coefficients differ for stock financed and cash financed acquisitions. Solely focus on the column "All acquisitions" and assume that corresponding coefficients are statistically significant.

ii. The mean long-term buy-and-hold abnormal return of all acquiring firms is -6.5%, but statistically insignificant. Interpret this result in light of the efficient market hypothesis.

b)

What are so-called conglomerates? Briefly discuss the conglomerate discount and the reason for its existence. (5 Points)