Exam questions

[Finance](#)

Finance and Accounting: 26 June, In terms of answering question 1a, the portfolio combination will definitely reduce risks in some instances. However, there are instances when a portfolio combination would not be profitable. A portfolio between two profit-generating companies will increase the portfolio companies' combined profits. For example, Combining Company A's $100, 000 returns and Company B's $250, 000 returns will generate a $ 350, 000 portfolio (combined) $ 350, 000 returns. On the other hand, combining company B's $250, 000 returns to company C's $100 return will be more beneficial to Company C, when compared to Company B benefitting from the portfolio. Further, a portfolio company having high risk may financially endanger the financial output of a company having miniscule risk. Portfolio analysis should include the influence of risk on the company's returns (Livermore, 1998, p. 584). CAPM is used to determine the relationship between risk and portfolio returns. In terms of question 1b, the Capital Asset Pricing Model (CAPM) is used to determine the effect of the risks on the returns. The CAPM model includes the risk free rate of return portion of the asset return. The CAPM is used to determine the expected capital asset return. The CAPM analysis includes a risk-free rate. The CAPM includes a risk premium and a market premium (Semmler, 2011, p. 106). The portfolio CAPM formula is shown in the following diagram:

E(Rp) = P1R1 + P2R2…+ PnRnFurther, the formula is used to whether the average return on a portfolio of stocks is positively related portfolio's beta data. The limitations include a wrong proxy is chosen. Another limitation is that the financial economists had not discovered a fool-proof they that explains why investors demand premiums for investing in low price/earnings for converting such concepts into risk premium estimations (OByrne, 2001,

p. 180). In terms of question 2a, there are several motives for taking over another company. First, the “ economies of scale” theory dictates that come entities or corporations takeover other companies in order to increase revenues. The total revenue of two companies will normally be higher than the revenue generated by all companies, given that the total sales of each company or equity is similar, under the synergy principle. Second, some companies takeover other companies in order to acquire the other company’s current and prospective customer database. Third, takeovers allow the new owner to acquire the expertise of the acquired company (Nuchtern, 2008, p. 4). Fourth, companies will take over another company in order to control the local market. Local companies can buy a foreign competing company to protect the local market segment. In terms of question 2b, mergers and acquisitions contribute to shareholder value and increase the acquiring company’s financial output. First, mergers and acquisitions can reduce the effect of the current competitors. One company can acquire or merge with a competitor company. The combined company will generate higher profits. Implementing the synergy principle, one company plus one company is equal to three companies. The combined company’s marketing strategy will overshoot the financial performance of the two combined companies’ separate financial performance. Second, one company can merge or acquire a supplier company in order prevent a halt in the company’s supply needs. Third, one company can acquire or merge with another company in order to diversity its products or services. A company that is engaged in a restaurant business can acquire or merge with a wedding advice company in order to persuade the acquired wedding company’s clients to have their wedding reception in the company’s parent

company, the acquiring restaurant (Simmons, 2006, p. 275).

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