

Answer

Business



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The final exam covers the last nine chapters of the DePamphilis text.

General Instructions: This is an advance copy of the take-home final exam.

You may use your textbook and notes. However, answer all questions on your own. Do not communicate concerning test questions or answers, with anyone else. Answer essay questions in your own words. Focus on keywords.

A word limit for answering each essay question is indicated. Do not go over the maximum number or words specified. Multiple choice questions require calculations, using equations, in order to solve. Select the closest or best multiple-choice answer, from those given. All of your completed answers to

final exam questions are to be posted on Blackboard. You will have 2 ? hours to finish your exam, once you have logged on to Blackboard. Hint: You

should type out or write down all your answers to the take-home final exam questions, prior to logging on and posting your answers to the test questions on Blackboard. Turn in final exams on Blackboard, no later than 12: 00 noon,

Saturday December 13, 2013. Exponents Calculator: For students who require a link. <http://www.calculatorsoup.com/calculators/algebra/exponent.php>

4. Comment of the following statement: A premium offered by a bidder over a target's share price is not necessarily a fair price, and a fair price is not necessarily an adequate price. (Explain this statement in 85 words or

less) Answer: If the basis of looking at the offer price is through objective criteria as the premiums paid on similar transactions and the portion that the target firm contributed, then it is considered fair. At some point, a

considered fair price may still be high enough in satisfying selling firm's shareholders. This leads to the point of considering premium to be

inadequate. This is due to the point that a premium would not be high

enough to cause firm's shareholders to give up their shares. 6. Is it possible

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for a leveraged buyout to make sense to equity investors, but not to other investors in the deal? If so, why? If not, why not? (Answer this question in 180 words or less) Answer: Just before the announcement of LBO, there are two factors that the market value of the debt and preferred stock on the books of the target firm reflects. The first consideration is in line with the on-time repayment of the firm of its principal and interest. The second point concerns the firm's continuation of dividend payments on preferred equity. The firm's capability of addressing these obligations on a timely manner can be measured by ratios such as debt-to-equity and interest coverage. It is expected that upon the accomplishment of LBO, the firm's ability to address the above obligations deteriorates because it would mean that it has to take another amount of debt. In order to show a certain level of perceived risk of the firm, investors revalue the firm's pre-LBO debt and preferred stock in the open market, which eventually leads to the decrease of the market value of debt and preferred equity that pre-LBO investors possessed. It is evident that LBO equity investors can generate profit while existing debt and preferred stock holders see how their investment loses value.

7. Short Case Study: Johnson & Johnson Sues Amgen, In 1999, Johnson & Johnson (J&J) sued Amgen, over their 14-year alliance to sell a blood-enhancing treatment called erythropoietin. The disagreement began when unforeseen competitive changes in the marketplace and mistrust between the partners began to strain the relationship. The relationship had begun in the mid-1980s with J&J helping to commercialize Amgen's blood-enhancing treatment, but the partners ended up squabbling over sales rights and a spin-off drug. J&J booked most of the sales of its version of the \$3.7 billion medicine by selling it for chemotherapy and other broader uses, whereas Amgen was left with

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the relatively smaller dialysis market. Moreover, the companies could not agree on future products for the JV. Amgen won the right in arbitration to sell a chemically similar medicine that can be taken weekly rather than daily. Arbitrators ruled that the new formulation was different enough to fall outside the licensing pact between Amgen and J&J. What could these companies have done before forming the alliance, to have mitigated the problems that arose after the alliance was formed? Why do you believe they may have avoided addressing these issues at the outset? (Answer these questions in 75 words or less) Answer: Revenue sharing concerning the created products of the JV is one fundamental concern in the negotiation of the original partnership agreement. This, however, leads to the avoidance of complicated issues especially during the onset of original negotiations in order to achieve the desired agreement so quickly. It is important to avoid these issues. It will result to productivity in the first place, and prevent the companies from being robbed of potential gain.

8. What factors influence a parent firm's decision to undertake a spin-off, rather than a divestiture or equity carve-out? (Answer this question in 125 words or less) Answer: A firm's actual need for cash, the level of collaboration among businesses to be get rid and other operating units of the parent firms, and the division's potential selling price are all independent, but they are influential prior to the decision as to which of the stated three strategies to employ. The parent firms that look for a sufficient cash will most likely to engage in equity carve-out especially in operations concerning or showcasing high-selling prices with respect to their collaborative value. However, those parent firms that do not need cash have the likelihood to spin-off units with low-selling prices and collaboration with parent. Finally, parent firms with moderate cash plunge

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into carve-outs in the midst of low-selling price and perceived synergy of units. 9. Why are strong creditor rights important to an efficiently operating capital market? What is the purpose of bankruptcy in promoting capital market efficiency? (Answer these questions in 125 words or less) Answer: In the event of borrower defaults, there is a court that will ensure the protection of lenders' rights and emphasis of creditors' rights to protect their interests. The court will especially help the lenders in the reduction of the risk of losing their funds. Bankruptcy is a situation that leads to mechanism that will help creditors recover what they owed. This mechanism lowers borrowing cost but increases funds amount available to borrowers. If the cost of capital is lower, capital markets became efficient. If the lenders believe they have only little control in the event of default, the time to get a loan is less. If lenders see that the risk is high, due diligence is required, adding risk premium to the loan's interest rate. 10. What are some of the options commonly used to finance international transactions? If you were the chief financial officer of the acquiring firm, what factors would you consider in determining how to finance a transaction? (Answer these questions in 140 words or less) Answer: Cross-border transactions are often financed by debt. Debt financing may be allocated to purchasing of the target's outstanding shares for cash or to do to repurchasing of acquirer shares issued to target shareholders. Capital markets have many sources of financing especially in the acquirer's home, the target's local country, or other countries. Domestic capital sources for cross-border acquirers can be the banks that are able to provide bridge financing and credit lines, bond markets, and equity markets. In order to get rid of the associated risk of default of debt primarily with the one issued to finance cross-border investments like M&As, credit default

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swaps are necessary. This creates a certain move on the part of the lender to be protected from the risk linked to default, but this calls for an annual payment to the seller of the insurance contract.