

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE Postgraduate & Mid-career Development Unit

Master of Business Administration in Finance (Semester III Second-half) (2014-2016)
Examination – July/August, 2016

MBAFI 602 – Seminar: Contemporary Problems in Finance

- **Three (03) Hours.**
 - **Answer any four (04) questions.**
 - **This is an open book examination.**
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Question 01.

i. “Financial stability has improved modestly in advanced economies since the April 2015. Risks continue to rotate from advanced economies to emerging markets and from banking to nonbanking sectors, keeping emerging market risks elevated, while market and liquidity risks continue to increase, in an environment of lower risk.” **Explain** the Locus of Risks Shifting towards Emerging Markets as demonstrated in the International Monetary Fund (IMF) Global Financial Stability Report, October 2015.

(13 marks)

ii. Traditional finance, based on the hypothesis of efficient markets and the optimization of statistical figures such as means and variances, suggests that investing has a lot to do with mathematics. However, behavioral finance has put the spotlight back on people. People make mistakes – even in investment decisions, which results in inefficiencies at the market level. **Explain** what are known as confirmation bias, myopic loss aversion, anchoring and favorite long-shot bias and how those behavioural biases deviate from rational investment decisions.

(12 marks)

(Total 25 Marks)

Question 02.

i. We think that the resumption in Mergers & Acquisitions activity has now been in evidence for several quarters is the beginning of a new cycle, the seventh wave of Mergers & Acquisitions in the long economic history of the United States. We have seen that there is a common denominator for all Mergers & Acquisitions waves: economic recovery and its corollary, the flourishing of capital markets. But each wave also has its idiosyncrasies and drivers behind such waves. **Explain** drivers behind the seventh wave of Mergers & Acquisitions.

(13 marks)

ii. Even though Mergers & Acquisitions activities have been taking place in advanced and developed economies such waves of Mergers & Acquisitions are not very common and frequent in emerging markets. **Critically evaluate** reasons behind low uptake in Mergers & Acquisitions in Sri Lankan market compared to advanced and developed economies.

(12 marks)

(Total 25 Marks)

Question 03.

i. Financial conditions in the Emerging Markets (EMs) have become more dependent on the 'world' long-term interest rate, which has been driven down by monetary policies in the advanced economies – notably Quantitative Easing (QE) – and by several non-monetary factors. **Critically evaluate** factors which would have caused heightened emerging market sensitivity to global long term rates including some factors persist even before the starting point of current Quantitative Easing (QE).

(13 marks)

ii. Even though there are certain similarities between previous and current financial crises it also featured some significant differences. **Explain** four such significant differences between previous financial crises and current global financial crisis.

(06 marks)

iii. The resurgence in capital inflows to the ASEAN region in the period from 2009 to 2012 has brought renewed concern to policymakers since the associated adverse effect could cause a rapid increase in bank credit growth and asset prices, increasing financial fragility. **Explain** four property-sector specific measures adopted by ASEAN economies to arrest the situation.

(06 marks)

(Total 25 Marks)

Question 04.

i. In the recent past there has been a significant increase in the share repurchases by companies in the developed markets. **Explain** the motives behind for the use of Share Repurchase instead of Cash Dividends using Distribution of Excess Cash Hypothesis, Tax Avoidance Hypothesis, The Take-over Avoidance Hypothesis, Target Leverage Hypothesis and Signaling or Undervaluation Hypothesis.

(13 marks)

ii. Accelerated Stock Repurchases (ASRs) have been around the financial markets since the late 1990s, but recently they have become a popular complement to traditional Open Market Stock Repurchases (OMR). **Explain and distinguish** ASR from OMR. **Reason out** how ASR can be more effective than OMR under Earnings per Share Manipulation Hypothesis, Take-over Avoidance Hypothesis, The Signaling or Undervaluation Hypothesis and Employee Share option Dilution Hypothesis in achieving respective objectives.

(12 marks)

(Total 25 Marks)

Question 05.

i. **Describe** briefly each measure introduced such as Say-on-Pay, claw back of bonuses, Proxy Access, emphasis on disclosures and independence of board remuneration committee members after the Global Financial Crisis by various regulators throughout the world and **explain** the role such measures can play to improve corporate governance irrespective of their shortcomings.

(13 marks)

ii. Corporate governance is central to understanding economic growth in general and the role of financial factors in particular. **Discuss** how the proper monitoring of firms together with liquid equity markets, sound debt contracts and strong banking systems can enhance corporate governance and accelerate growth.

(12 marks)

(Total 25 Marks)
