



UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Postgraduate & Mid-career Development Unit

Master of Business Administration/Master of Business Administration in Finance/Master of Business Administration in Marketing/Master of Business Administration in HRM (Semester III)

Second Half Examination – July, 2017

MBAFI 602 – Seminar: Contemporary Problems in Finance

Instructions:

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

- i. “Emerging market economies have continued to enhance their resilience. Their macroeconomic outlook has improved due to stronger growth and lower corporate leverage, alongside prospects for positive growth spillovers from advanced economies. But overall financial stability risks remain elevated.” **Identify** two major channels of transmission of external risks to emerging markets economies and **critically evaluate** their impact on emerging market economies.

(13 Marks)

- ii. After a record-breaking year for Mergers and Acquisitions in 2015, it is perhaps no surprise that overall transactional activity was more subdued in 2016. However, it is expected to continue outcome-based motives of Mergers and Acquisitions even during 2017.

Discuss and differentiate following outcome based motives of Mergers and Acquisitions:

- (a.) Market motive
- (b.) Diversification motive
- (c.) Financial Synergy motive and
- (d.) Managerial Irrationality.

(12 Marks)

(Total 25 Marks)

02.

- i. Feedback models attempt to show that when investors trade they actually often trade based off of other investors rather than off new information. This can lead to inefficiencies and bubbles that traditional theory cannot explain.

Explain what are known as

- (a.) home bias,
- (b.) over confidence bias,
- (c.) confirmation bias and
- (d.) framing bias and how these behavioral biases deviate from rational investment decisions.

(13 Marks)

ii. The “buyback wave” has attracted much attention in the financial press, and has been criticized for undermining economic growth, leading firms to skimp on long term investment in order to pursue short term objectives such as earnings per share. Reason out the motives of Share Repurchase Programs using following hypotheses:

- (a.) Distribution of excess cash hypothesis
- (b.) The target leverage ratio hypothesis
- (c.) The managerial opportunism hypothesis
- (d.) The liquidity reduction hypothesis

(12 Marks)

(Total 25 Marks)

03.

i. An initial public offering can be considered as one of the biggest steps in a company’s lifecycle. The theories behind firms going public can be broadly categorized to two groups.

Briefly explain idea behind following theories of Initial Public Offerings (IPO):

- (a.) Life Cycle Theories
- (b.) Market-timing Theories

(05 Marks)

ii. The pricing of IPOs has been extensively researched due to the remarkable empirical regularity that, when companies go public, the equity they sell tends to be underpriced, resulting in a substantial price jump on the first day of trading.

Discuss following theoretical concepts that explains the short-term performance of IPO under-pricing:

- (a.) Winners’ Curse Theory
- (b.) Signaling Theory
- (c.) Principle-agent Theory

(10 Marks)

- iii. While the most of the concepts explaining IPO short term under-pricing performance have been built on the assumption of rational market participants, behavioral theories assume the presence of 'irrational' investors and their effect on stock prices.

Critically evaluate behavioral explanation on IPO short-term under-pricing giving emphasizes on the "Investor Sentiment Theory" and the "Prospect Theory".

(10 Marks)

(Total 25 Marks)

04.

- i. In the contest between different approaches to corporate governance in the Anglo-American, Germanic and Japanese models, the question arises: is one system more robust than the others and will one of this system prevail and become universal?

Briefly explain differences and/or similarities in;

- (a.) orientation
- (b.) prevailing concept of the firm
- (c.) the Board system and
- (d.) time horizon of economic relationships, among the Anglo-American, Germanic and Japanese corporate governance models.

(13 Marks)

- ii. In the inevitable contest between the insiders, relationship-based, stakeholder oriented corporate governance system and the outsider, market-based, shareholder value-oriented system, it is often implied that the optimal model is the dispersed ownership with shareholder foci for achieving competitiveness and enhancing any economy in a globalized world.

Discuss the strengths and weaknesses of the Anglo-American, Germanic and Japanese corporate governance models.

(12 Marks)

(Total 25 Marks)

05.

i. There is an extensive literature on the topic of the dividend policy but still no conclusive answer about the informativeness of dividends and their connection with future earnings growth.

Discuss the different aspects of dividend policy explained through following concepts:

- (a.) Agency Theory
- (b.) Information Asymmetry
- (c.) Bird-in-hand fallacy
- (d.) Clientele effect

(12 Marks)

ii. "Do firms use dividend changes to signal future profitability?"

Critically evaluate empirical research evidence supporting and opposing Dividend Signaling hypothesis.

(13 Marks)

(Total 25 Marks)
