Universität Innsbruck	**Institut für Banken und Finanzen**

Fachprüfung

Financial Management 02/2014

Dr. Florian Hauser

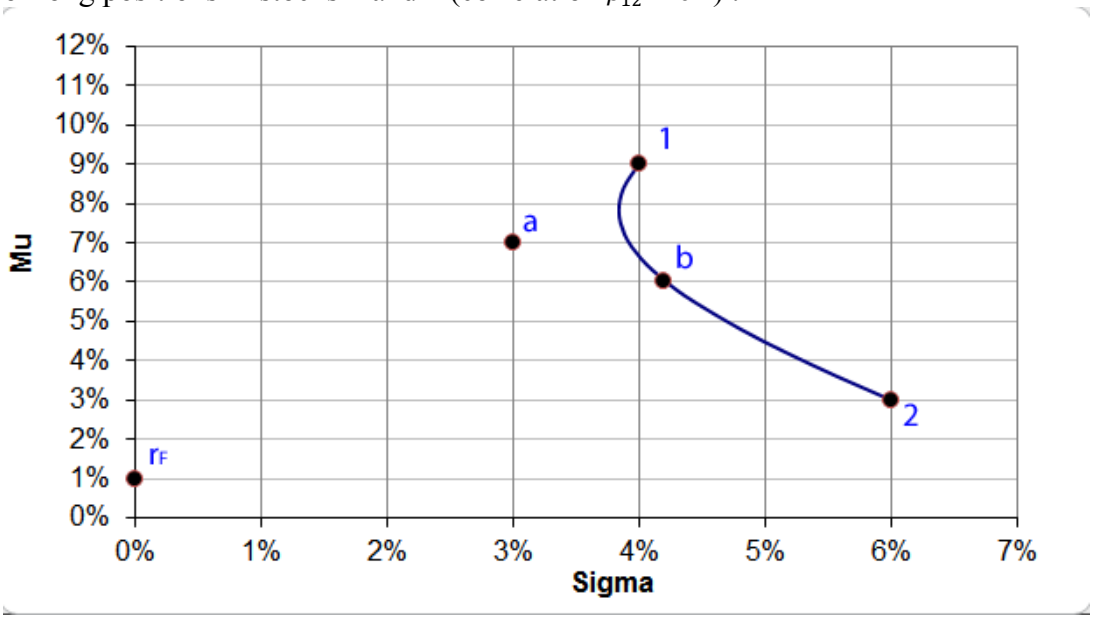
N° 1	N° 2	N° 3	N° 4	N° 5	N° 8	Total	Note
6	6	6	6	6	10	max. 40	PS:

Name:	Studienkennzahl:	Matrikel:

You can answer in English and German language as well!

1) Discuss the meaning of negative Betas: Explain
   a) what return the CAPM expects for a negative-beta stock.
   b) why an investment in a negative-beta stock might make sense.
   c) which firms you consider as likely candidates for negative-beta stocks (give two examples).

2) You have the following three investment opportunities: Stock 1, stock 2, and the risk-free rate of return. The solid curve in the graph shows all feasible portfolios consisting of long positions in stocks 1 and 2 (correlation $\rho_{12} = 0.4$) .



a) How can an investor realize portfolio a) Please provide exact ratios here:

_____ % in 1, _____ % in 2, _____% in r_F

b) How can an investor realize portfolio b) Please provide exact ratios here

_____ % in 1, _____ % in 2, _____% in r_F

c) You have 500€ to invest, and you want to go long with 500€ in asset 1, short with 200€ in asset 2, and invest the rest in the risk-free asset. What is the risk (sigma) of that position?

3) Choose **only one of the following two** topics. Explain it **in short words** and, more important, explain its relation to / implication for finance:
   Topic 1: The NASA-game.
   Topic 2: Keynes' beauty contest.

4) What are the main objectives of financial reporting / public disclosure? Discuss why reporting might fail to reach those objectives.

5) Firm “Alice” has 50,000 shares outstanding, quoting at a market price of 20€. In addition, it is financed by 500,000€ debt, at an interest rate of 5%. EPS for “Alice” are 4€. Firm “Bob” has 100,000 shares outstanding, and EPS for “Bob” are 0.75€. “Bob” and “Alice” have equal business risk. Assume a Modigliani-Miller-world without taxes and calculate:
   a) The capital structure of “Alice”.
   b) The premium on financial risk for “Alice”.
   c) The return on investment (ROI) for “Alice”.
   d) The weighted average cost of capital for “Bob”.
   e) ROE for “Bob”.
   f) The shareholder value of “Bob”, assuming the firm to be unlevered.

6) Multiple Choice.

Correct answers will bring 1 point; incorrect answers count -1 point. If a question is not answered, no points are assigned. Even with wrong answers, the total points for the multiple choice questions cannot be below 0. Comments will be ignored.

How to tick a box in the multiple choice section:

tick a box 

untick a box 

tick a box (again) 

	true	false
The bimatrix-game shows that a player can be harmed by getting secret, private information	☐	☐
In CAPM, the slope of the security market line is equal to the equity premium.	☐	☐
In CAPM equilibrium, an efficient portfolio must be free of unsystematic risk.	☐	☐
Empirical tests of the CAPM have proven its validity.	☐	☐
The variance-covariance matrix for 10 assets will cover 45 unique covariance terms.	☐	☐
According to prospect theory, managers prefer retained earnings for refinancing.	☐	☐
According to the trade-off theory, the tax shield will increase capital costs of a firm.	☐	☐
The Schredelseker-Coin-Model describes an inefficient market.	☐	☐
In the Schredelseker-Coin-Model, the profitability of a passive trading strategy declines the more agents adopt it.	☐	☐
The presence of an insider harms all other traders in the market	☐	☐