

Session 4a: Post Class tests

1. Cipra Inc. is a large, publicly traded pharmaceutical company with 100 million shares outstanding, trading at \$ 20/share. It has just announced an acquisition bid at \$15 share, for Lexma Inc., a smaller pharmaceutical company, with 50 million shares, currently trading at \$10 a share, arguing that the premium is justified by the synergy in the deal. If Cipra's stock price drops to \$18/share after the bid is announced and the market is right, estimate the synergy that the market expects from the deal:
 - a. \$250 million
 - b. -\$200 million
 - c. \$50 million
 - d. \$100 million
 - e. Impossible to tell
2. You are a bank that has made a fixed rate, long-term loan to a publicly traded company. The company has a significant cash balance and is under pressure to act. Which of the following actions would you view as favorable to you as a lender?
 - a. Pay higher dividends
 - b. Make an acquisition with the cash
 - c. Buy back stock
 - d. Retire short term debt and hold on to the remaining cash
 - e. None of the above
3. When lenders worry about what borrowers will do with the borrowed money, which of the following would you expect to see as a potential borrower?
 - a. Much higher interest rates on your borrowing
 - b. Much lower interest rates on your borrowing
4. If you maximize stock prices, you are effectively assuming that the market is rational and efficient. Many managers and management thinkers argue that markets are too short term. Which of the following is clear proof that markets are short term?
 - a. The stock price goes down on the announcement of an acquisition
 - b. The stock price goes up when a company lays off employees
 - c. The stock price goes up when a company borrows money
 - d. The stock price goes up when a company reports poor earnings
 - e. All of the above
 - f. None of the above
5. One of the problems with the information flow to financial markets is that companies delay revealing bad news to markets, waiting for a good time. If this is the norm, which of the following would you expect to observe in a rational market when it comes to companies?
 - a. No news is no news
 - b. No news is good news
 - c. No news is bad news