

# Fall 2012: Final B for 2:30 class

## short answer

1. Bid +15

2. Larger +15

$$3. \overset{+5}{(DR - DE - 100)} \overset{+2}{(1 - .35)} \overset{+2}{+100} - \overset{+2}{CF} - \overset{+2}{DyWC} = 0$$

$$\Rightarrow DR = \frac{-35}{.65} = -53.85$$

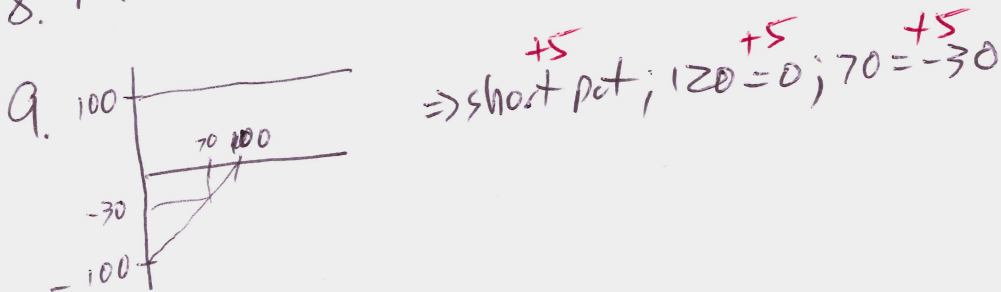
$$4. F(1) = \overset{+5}{(1.041)} \overset{+5}{(1)} \overset{+2}{(1 - 0.18)} \overset{+2}{(1.111)} \overset{+2}{(1.06)} - 1) + 5$$

5. correlation (or covariance) between the stocks +15

$$6. E(R_E) = \overset{+5}{7.7} + \frac{\overset{+2}{2.81}}{\overset{+2}{(9.63 - 2.81)}} (\overset{+2}{7.7 - 2.85}) + 4$$

+2/+7 7. Management benefits ✓ & stockholders lose ✓

8. Fall +15



$$10. \beta_D = \frac{\beta_E}{D(1 + \frac{D}{E})}; D = N(d, 1)$$

$$\Rightarrow \beta_D = \frac{\overset{+2}{.97}}{\overset{+3}{(.77637)} \overset{+2}{(1 + \frac{190}{200})}} + 6$$