

Spring 2012 Final  
1:25 B

Problems

1) a.  $V^L = 70,000 + \frac{40,000}{(1.04)^3} = 70,000 + 35,559.85 = 105,559.85$

⇒ Buy Firm A's stock, short sell Firm B's stock & bonds

	$t_0$	$t_1$	
<u>TRANS</u>			
buy A's stock	-100,000	+35,000	+120,000
Short B's bonds	+35,559.85	-35,000	-40,000
	<del>100,000</del>	0	-80,000
Short B's stock	+70,000		
	<del>105,559.85</del>		
<u>Total</u>	+5559.85	0	0