Quiz B: 3/21/12 Name & Time ____________________________

Quiz: Assume that yesterday Firms A and B were identical and that both were funded with 95% equity and 5% debt. However, this morning, firm B issued massive amounts of debt and used the funds to repurchase shares of stock. As a result, firm B is now funded with 95% debt. Based on the information in chapter 16, what differences would you expect to see in the future decisions made by these firms? What is the reason (or reasons) for each of these differences?

Note: Bonus WSJ Questions on back of page