Exam: Business Finance June 2017

1. Calculate the firm value, with a given D/E ratio of 80% (which has to stay constant), a project of 10 mio (initial investment), growth of 5%, cost of equity of 12% and cost of debt 9%.Then you had to calculate the initial value which should be held in debt.
   What is the PV of Tax Shield?
   Why is it convenient that the D/E ratio should stay constant?

2. Agency cost of outside equity - show the different effects graphically and explain what is happening

3. Model with contingent control rights; give the IC and PC in the case of no outside option and with contingent control rights. Show how the pledgeable income changes. Does this mean that you always have a higher chance to receive funding when there's investor control?

Multiple choice (5 in total)

1. Which of the following are not sources of seed and start-up financing?
   a) Family and friends
   b) The entrepreneur's physical and financial assets
   c) Business angels
   d) Venture capitalists
   e) **Stock and bond markets**

2. A venture's value to its owners is determined by:
   a) **Size and timing of its future free cash flows (to equity)**
   b) Level of its past revenues
   c) Prior losses and expenses
   d) All of the above

3. What does the value of equity holders depend on?

4. A question with 4 statements and you had to say which one was right

Open questions on funding for young firms.

An abstract of a research paper was given and two parts were highlighted, stating that: when a firm with only equity funding will attract new bank debt, this will have negative effects on investment and growth. While for a firm with only bank debt, it can be positive to attract equity funding.
You had to explain, using mechanisms, why this may be the case.

Also explain, using mechanisms, why this may not be the case.

In the abstract, it was also mentioned that young firms have earlier access to bank loans than to venture capital. Why might this be the case? And what is your opinion on this?