UNIVERSITY OF BOLOGNA

Name:

ID number:

Date:

CORPORATE GOVERNANCE EXAM

This is a closed books exam: you can use a calculator only. You are allowed 1h to complete the exam.

SAMPLE TEST WITH SOLUTIONS

MULTIPLE CHOICES (1 POINT EACH FOR A TOTAL OF 20 POINTS)

1) Which are the advantages of Japan's Corporate Governance (compared to market oriented countries):

a) Internal capital market and soft solutions for financial distress
b) Market for corporate control and hard budget constraints
c) Short term relationships and no dividends payment to shareholders

2) Due to their ownership structure, US public companies could be more focused on:

a) Short term results
b) Long term-results

3) In US (listed) public firms agency problems originated by the separation of ownership from control are partially reduced thanks to:

a) Incentive schemes which try to link executives' compensation with shareholders' value creation
b) Monitoring by small shareholders
c) Monitoring by the board of directors

4) Among others, the Sarbanes-Oxley Act has:

a) Forbidden the presence of more than 5 CEOs at the same time
c) Strongly decreased penalties for financial fraud
d) Created Chinese Walls between Investment Banks and financial analysts

5) Thanks to the Sarbanes-Oxley Act, the number of European firms listed on the US markets has:

c) Increased
d) Decreased

6) *A listed company can be safely controlled even if the percentage of cash flows owned is below* 50%

a) true
b) false

7) What is (are) the advantage(s) of a dual class unifications?

a) A lower company taxation because there will be fewer shares in the stock market
b) An increase of voting shares' liquidity and more chances to enter or remain in a major stock index
c) There are no advantages from the dual class unification

d) The no-voting shares receive a double dividend

8) According to La Porta (et al.) theories, Common Law countries have:

a) Higher creditors' rights but lower shareholders' rights
b) Higher creditors rights and higher shareholders' rights
c) Lower creditors' rights but higher shareholders' rights

9) From cross-country empirical evidence, it seems that private benefits of control are:

a) negatively related to the degree of investor protection in the country
b) Positively related to degree of investor protection in the country

10) According to the Market in Financial Instruments directive:

a) Trades must not more be concentrated on regulated markets
b) Trades must be concentrated on only one market in each country
c) Orders must be executed at the bank "best UE country execution"

11) Which of the following actions can be considered as a post-takeover defence:

a) reducing the stock market price of the shares
b) decreasing the firm's leverage
c) buying back the firm's own shares

12) The so-called "breakthrough rule" of the EU Takeover Directive is aimed to neutralise:

a. pre-bid defences during a takeover.
b. post-bid defences during a takeover

13)

14)

15)

16)

.

17)

18)

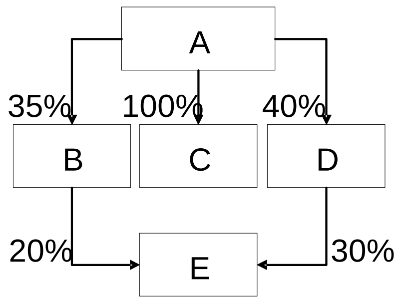
19)

20)

SHORT EXERCISES (2 POINTS EACH FOR A TOTAL OF 10 POINTS)

1) A EU country takeover regulation has set 30% of votes as a threshold for control definition, which triggers Equal Opportunity. The majority shareholder of a listed company decides to sell his 50% controlling stake to a new owner for a price equal to 150, 50 of which are the value of his private benefits.
A) Which is the total value of the company (Mkt value and Private Benefits) under the old owner?
B) Which is the % of shares the new owner is obliged to make an offer for?
C) Which is the total value of the tender offer the new owner will have to make?
A) 150-50= 100 = mkt value of a 50% stake, hence Mkt value = 200 (100*2) and Total value = M +PB_{old} = 200+50= 250
B) 100%, that is the remaining 50%
C) 150x2 = 300 (ok also if you have referred only to floated share, then it would be 50% of 300= 150)

2) Given the below ownership structure (there are no dual class shares)
A) which is the percentage ownership (OWN) of cash flows by firm A in firm E?
B) Which is the percentage of votes controlled in company E by the ultimate shareholder (CONTROL) assuming that company B and C are listed and can be safely controlled with a 35% and 40% ownership level?
C) Which is the O/C ratio?



A) OWN= 35%*20% + 40%*30%= 0.07 + 0.12 = 0.19= 19%
B) CONTROL = 20%+30% = 50%
C) 0,19/0,5 = 0.38

3) 1) A firm has 1 mln of voting shares and 1 mln of non-voting shares. Assuming the market prices for the two classes of shares are respectively 2 euros for the voting share and 1 euros for the non-voting share. Which should be the approximate market reaction for the voting and non-voting shares at the announcement of a 1:1 coercive dual class unification?

Total mkt cap = 1 mln x 2 euros + 1 mln + 1 euro = 3 mlns
Number of voting shares after the DCU = 1mln +1mln = 2 mlns
Value of 1 share = 3 mlns/2 mlns = 1.5 euros
Mkt reaction for the voting share: (1.5-2)/2 = -25%
Mkt reaction for the non-voting share: (1.5-1)/1.5= +50%

4)…….

5)……..