PMBA 622 FINANCE EXAM

Spring 2007

This exam is due no later than Sunday, May 13, at 9:00 PM CDT by email to dhawley@bus.olemiss.edu

Note well: You may not discuss this exam with any other human being except Dr. Hawley.
All of your responses are to be your, and only your, work.

Spreadsheet Model:

See the Mini-Case on pages 801-803 in your textbook. Create an ORIGINAL Excel spreadsheet model that produces the answers to questions 1-4 in the case. Your model should not be an adaptation of any spreadsheet that I used for class, meaning that you cannot start with my work and change it to be your work. You can, of course, use any of the operations that I used. Your model should have a clearly defined input area so that inputs can easily be changed, and your results should adapt accordingly. Your model should be formatted in a visually appealing and professional manner. You may use any version of Excel up to and including Excel 2007.

This question is worth 70 points as follows:

> Accuracy (Are the computations correct): 40 points
> Quality of the model (Do your results correctly adjust to changes in the inputs): 15 points
> Quality of the visual appearance (is the model formatted to be professional in appearance): 15 points.

Short Essay Questions:

From the following 8 questions, select ANY 6 to answer. Each question is worth up to 5 points. Your answer should be brief but complete – that is – don't ramble all over. A few paragraphs should be sufficient to answer any of these questions. Focus on the question that is asked and answer it using your text, class materials, or any other source NOT INCLUDING another human being. Cite your sources appropriately. Submit your answers in one Word document (any version up to and including Word 2007).

Option 1:

> Why are most corporate bonds callable? Who benefits from this feature, and why? Is there any cost to the issuer in adopting a call provision for a bond issue? If so, from what does the cost arise? (Chapter 17)

Option 2:

What purpose do covenants serve in a debt agreement? What are some common covenants and why are they needed? What factors should a manager consider when negotiating covenants? (Chapter 17)

Option 3:

If you were asked to advise an entrepreneur on whether or not take his or her firm public, what are the key questions that you would need to ask in order to make an informed decision, and what answers would lead you to advise your client to go public? (Chapter 16)

Option 4:

How would you explain the fact that the underwriting spread on IPOs averages about 7 percent of the offering price, whereas the underwriting spread on seasoned offerings of common stock averages less than 5%? (Chapter 16)

Option 5:

What impact would aggressive action aimed at minimizing a firm's cash conversion cycle have on its on the following financial ratios: inventory turnover, average collection period, and average payment period? What are the key constraints on aggressive pursuit of this strategy with regard to inventory, accounts receivable, and accounts payable? (Chapter 22)

Option 6:

What are some of the common characteristics of those entrepreneurial growth companies that are able to attract venture capital investment? In which industries and states is the majority of venture capital invested? (Chapter 26)

Option 7:

What is meant by early-stage and later-stage venture capital investment? What proportions of venture capital have been allocated between the two in recent years? Which stage requires a higher expected return? Why? (Chapter 26)

Option 8:

How does the financing of entrepreneurial growth companies differ from that of most firms in mature industries? How does the concept of *bootstrap finance* relate to this difference? (Chapter 26)