

FIN335 Phase 3 Review
40 – 50 Questions (M/C, T/F, Problems)

Capital Market History [10] (P)

1. How do we compute? dollar returns, percentage returns (P)
2. How do *average* returns differ from *geometric* returns? (P)
3. What are *risk premiums*?
4. What important claim does the Efficient Markets Hypothesis make about securities markets?

Risk and Return [11]

1. How does systematic risk differ from unsystematic risk?
2. What effect does diversification have on unsystematic risk?
3. How are beta and systematic risk related?
4. CAPM states that the expected return on an asset depends on what three things?
5. How do we measure expected returns for portfolios? (P)

Cost of Capital [12] (P)

1. Why are taxes important in determining the cost of capital?
2. How do we measure the weighted average cost of capital? (P)
3. How does risk impact the firm's cost of capital?
4. How are weights determined when computing the weighted average cost of capital?

Leverage and Capital Structure [13]

1. What is financial leverage? (P)
2. What is operating leverage?
3. How is the value of the firm affected by capital structure in the static theory?
4. How does business risk differ from financial risk?
5. Why do taxes have such an important impact on the Modigliani & Miller hypotheses? (Case I v. Case II in Fig 13.6)

Dividends and Dividend Policy [14]

1. What are the 4 important dates regarding the payment of dividends?
2. What does it mean when a stock goes ex-dividend? (P)
3. What is the impact of the tax treatment of ordinary income and capital gains for investors?
4. How do stock dividends differ from stock splits? (P)
5. How do dividends relate to stock prices?

Raising Capital [15]

1. What functions do venture capital firms perform?
2. How are the registration statement and preliminary prospectus related?
3. What information is contained in a “tombstone” advertisement?
4. What functions do underwriters perform?
5. What are the two types of underwriting agreements and how do they differ?
6. What are green shoe provisions?
7. What is a shelf registration (Rule 415)?

International Aspects of Financial Management [18] (P)

1. What is an ADR?
2. Why do foreign firms use ADRs?
3. What is the LIBOR?
4. How does a direct exchange differ from an indirect exchange? (P)
5. How does a spot trade differ from a forward trade?
6. How do we recognize when a currency appreciates in value? depreciates? (P)
7. What is translation exposure and how do firms manage it?
8. What is forfaiting?