

Ex/PG/ECO/404/2022

MA EXAMINATION, 2022
2nd Year, 4th Semester
DEPARTMENT OF ECONOMICS

Financial Economics II (Corporate Finance)

Time: Two Hours

Full Marks: 30

Answer *any two* questions

1. State and prove the Modigliani-Miller hypothesis of irrelevance of capital structure. Explain why and how the presence of agency cost associated with equity will change the MM hypothesis. 5+10
2. Under asymmetric information where equity financing is the only choice of financing, under what circumstances the action of the management working in the interest of the existing shareholders will convey additional information to the potential investors and under what circumstances it will not convey any information and what will be the impact of the additional information on the value of the firm? With asymmetric information why are retained earnings & risk free debt preferred mode of financing compared to equity financing? 12+3
3. State the Modigliani –Miller hypothesis of dividend irrelevance. Explain the alternative theories that refute the dividend irrelevance hypothesis stating in each case the exact nature of refutation. 2+13