Problem 1
a. Management power increases. Board will become more CEO compliant.
b. Stockholder power increases. New directors are likely to be stockholder focused.
c. Management power increases. Hostile takeovers operate as a disciplinary mechanism.

Problem 2
Quarterly Excess Return = (1.32)^{1/4} - 1 = 7.19% ! Okay if you use 8% as quarterly excess return
Intercept - Riskfree Rate (1-Beta) = Excess Return
Quarterly Riskfree Rate=(1.048)^{1/4} - 1 = 1.18% !Again, okay if you use 1.2% as you quarterly riskfree rate
Solving for the intercept,
Intercept = 7.19% + 1.18% (1-.5) = 6.60%

Problem 3
0.70 (Raw Beta) + 0.30 (1.00) = 1.70
Raw Beta = 2.00
Range on Beta = 1.65-2.35

Problem 4
Current Beta = 1.20
\[
\begin{array}{c|c|c}
\text{Assets} & \text{Liabilities} \\
\hline
\text{Assets} & 100 & \text{Equity} & 100 \\
\end{array}
\]
Unlevered Beta = 1.20 ! There is no debt
After the transaction,
\[
\begin{array}{c|c|c}
\text{Assets} & \text{Liabilities} \\
\hline
\text{Assets} & 100 & \text{Debt} & 40 \\
& \text{Equity} & 60 \\
\end{array}
\]
Debt/Equity Ratio = 40/60 = 0.67
New Beta = 1.20 (1 + (1-0.4)(0.67)) = 1.68