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

Intercept - 1.18% (1-1.50) = 7.19%

Solving for the intercept,

Intercept = 7.19% + 1.18% (1-.5) = $\boxed{6.60\%}$

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

Assets		Liabilities	
Assets	100	Equity	100

Unlevered Beta = 1.20 ! There is no debt

After the transaction,

Assets		Liabilities	
Assets	100	Debt	40
		Equity	60

Debt/Equity Ratio = 40/60 = 0.67

New Beta = 1.20 (1 + (1-0.4)(0.67)) = $\boxed{1.68}$