16-16. On May 14, 2008, General Motors paid a dividend of $0.25 per share. During the same quarter GM lost a staggering $15.5 billion or $27.33 *per share*. Seven months later the company asked for billions of dollars of government aid and ultimately declared bankruptcy just over a year later, on June 1, 2009. At that point a share of GM was worth only a little more than a dollar.

a. If you ignore the possibility of a government bailout, the decision to pay a dividend given how close the company was to financial distress is an example of what kind of cost?

b. What would your answer be if GM executives anticipated that there was a possibility of a government bailout should the firm be forced to declare bankruptcy?

16-17. Dynron Corporation's primary business is natural gas transportation using its vast gas pipeline network. Dynron's assets currently have a market value of $150 million. The firm is exploring the possibility of raising $50 million by selling part of its pipeline network and investing the $50 million in a fiber-optic network to generate revenues by selling high-speed network bandwidth. While this new investment is expected to increase profits, it will also substantially increase Dynron's risk. If Dynron is levered, would this investment be more or less attractive to equity holders than if Dynron had no debt?

16-27. Although the major benefit of debt financing is easy to observe—the tax shield—many of the indirect costs of debt financing can be quite subtle and difficult to observe. Describe some of these costs.