Chapter 15 – Practice Problems

A. The shareholders of the Stackhouse Company need to elect seven new directors. There are 960,000 shares outstanding currently trading at $48 per share. You would like to serve on the board of directors; unfortunately no one else will be voting for you. How much will it cost you to be certain that you can be elected if the company uses straight voting? How much will it cost you if the company uses cumulative voting?

B. Beasley, Inc. is going to elect nine board members next month. Betty Brown owns 12.4 percent of the total shares outstanding. How confident can she be of having one of her candidate friends elected under the cumulative voting rule? Will her friend be elected for certain if the voting procedure is changed to the staggering rule, under which shareholders vote on three board members at a time?

C. End-of-Chapter Problem #2

D. KIC, Inc., plans to issue $5 million of bonds with a coupon rate of 8 percent and 30 years to maturity. The current market interest rates on these bonds are 7 percent. In one year, the interest rate on the bonds will be either 10 percent (with a probability of 70%) or 6 percent (with a probability of 30%). Assume investors are risk-neutral.

(a) If the bonds are noncallable, what is the price of the bonds today?

(b) If the bonds are callable one year from today at $1,080, will their price be greater or less than the price you computed in (a)? Support your answer numerically.