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into account.

info asymmetry



Department of Economics

Course: Economics of Organization and Information

Exam. on March 10th, 2014

Max. duration: 4 h

Answer (in English or Swedish) all questions below! Answers should be short and to-the-point.
Irrelevant text will reduce your score.

1. Define in a few sentences the following concepts:

- ☐ a) Asset specificity (2 p)
- b) Tacit knowledge (2 p)
- c) M-form enterprise (2 p)
- d) Due diligence (2 p)
- e) Franchising (2 p)

2. Mintzbergs classification of coordinating mechanisms within organisations. Give one (just one!) example for each of the mechanisms. (18 p)

3. (Based on Q6 p. 164 in D&S) Ummels Services BV is a Dutch company with limited liability offering maintenance services for chemical processing plants. Ummels Services BV was founded in 1984 by Mr. Stef Ummels. The company was owned and managed by Mr. Ummels until he died in 2005. Since then, 50 per cent of the shares of Ummels Services BV have been owned by his son, Paul Ummels, while the other 50 per cent are owned by his daughter, Lara Ummels. Since his father's death, Paul Ummels has managed the company. Lara Ummels is a medical student and intends to become a urologist. In March 2012, Paul and Lara talk about Lara selling her shares in the company to her brother. Lara would like to cash them in because she has little affinity with the company. Paul is interested in buying because he likes the idea of becoming sole owner. Paul is sure that he can borrow the money he needs to buy Lara's shares. Paul and Lara engage Mr Schlösser, an independent financial consultant, to estimate the value of Lara's shares. Mr Schlösser calculates the present value of all future cash flows of the company. In estimating future cash flows, he uses the historical cash flows for the last five years. This results in a value of E 4.6 million for the company. He recommends that Lara sells her shares to Paul for E 2.3 million.

Lara is now asking you for a second opinion on Mr Schlösser's calculation.

- a) Based on the Principal-Agent Theory what is there that Mr Schlösser have neglected? (10 p)
- b) How can Lara justify a price higher than E 2.3 million and why would Paul be interested in buying at a price higher than E 2.3 million? (8 p)

underestimation
of potential

4. (Based on Q3 p. 354 in D&S) Information asymmetry is a major problem in many M&A deals. However, the degree of information asymmetry may depend on the characteristics of the deal. Below you find a list of different types of situations. For each of them briefly describe the most significant potential information asymmetry problem in the deal (just one!). (Maximum score for each of the situations is 3 p)

- a) Two quoted companies consider a merger (such as the merger between AOL and Time Warner).
- b) A quoted company is considering the acquisition of another quoted company by making shareholders of the target firm an offer in cash.
- c) A quoted company is considering the acquisition of another quoted company by making shareholders of the target firm an offer in shares.
- d) A large company wants to sell one of its divisions to another large company (an example is the

sale by Philips of its domestic appliances division to Whirlpool).

e) A multibusiness firm wants to sell one of its business units to the manager of that business unit.

f) A multibusiness firm wants to sell one of its business units to a newly formed company in which a private equity firm holds 80 per cent and the manager of the business unit to be sold holds 20 per cent.

g) A large firm in the pharmaceutical industry is considering the acquisition of a small biotech firm from the founders of that company.

h) A firm A that owns a large block of shares in firm B (the CEO of A being on the board of B) would like to acquire the remaining shares in B.