



UNIVERSITY OF  
**BATH**

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ES22016 Introduction to finance

*Seminar problems*



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The problems provided as part of this module are designed to apply the theories learned to practical and realistic scenarios, allowing students to apply their knowledge and practice their ability to explain real-world events using economic theories in plain English. Seminars are dedicated to discussing these problems, but we are not able to discuss all problems due to time constraints. Having additional problems allows students to practice their knowledge in preparation of the assessment; they can compare their solutions with the indicative answers provided and for any additional clarifications attend the office hours.

The below table gives an indication about the problems to be discussed in class for each topic. At times it will be not be possible to discuss each problem and at other times it might be possible to discuss an additional problem if time permits. It is expected that students are prepared to discuss all problems in each seminar.

Seminar problems	
Topic 1	1, 2
Topic 2	3, 5
Topic 3	7, 10
Topic 4	11, 14
Topic 5	15, 17
Topic 6	20, 22
Topic 7	23, 26
Topic 8	28, 29
Topic 9	33, 36
Topic 10	39, 40
Topic 11	9, 22
Topic 12	72, 74
Topic 13	90, 96
Topic 14	128, 130
Topic 15	142, 179
Topic 16	2, 3
Topic 17	10, 36
Topic 18	16, 20
Topic 19	26, 38
Topic 20	43, 48

The problems for topics 11 to 20 are taken from the respective textbooks and the problem numbers refer to the numbers of the problems therein. These problems are not included in this booklet, but have to be taken directly from the textbooks.

The difficulty of problems will vary, as the difficulty of questions in the exam will vary, to allow for an assessment of the degree to which the learning outcomes have been met and the final mark to reflect the standards achieved. The questions discussed in the seminar will therefore be a mix of more easy and more difficult questions. Furthermore, some problems will require the application of more than one model for a

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complete answer, but these are not necessarily more difficult than problems requiring the use of only a single model.

## **Topic 1**

### **Problem 1**

An investor who is risk-averse would always choose the option that gives the lowest risk.

Is this statement true?

### **Problem 2**

Carefully explain the difference between moral hazard and adverse selection.



## Topic 2

### Problem 3

Michael Tippet is an independent financial advisor and while discussing investment options with a client, he points out three possible investment funds that might be suitable for the needs of his client. The first fund he has picked out, UK Small Cap Fund, invests into small listed companies and in the past has shown an annual return of 12% and a volatility in returns of 27%. Another fund, called UK Safe Return Fund, invests mainly in utility stocks and other defensive stocks, generating an annual return of 7% with an annual volatility of 13%. The final fund under consideration, UK Growth Fund, has a different investment strategy in that it not only invests into stocks, but also bonds issued by companies. Its annual return and volatility are 8% and 11%, respectively. As financial advisor, he believes that market conditions are stable and expects similar returns to those observed in the recent past also in the future from all funds. His client tells him that he finds the investment strategy followed by UK Safe Return Fund appealing and wants to consider this fund further.

- a. As his financial advisor, should Michael Tippet recommend to invest into UK Safe Return Fund?
- b. Recently, Michael Tippet has advised a different client and given that client's circumstances, he proposed to invest 40% of the monies considered into UK Small Cap Fund and 60% into UK Growth Fund. His current client dislikes risk more than his previous client, how would he change the recommended portfolio for his current client?

### Problem 4

During a discussion with family members, your older brother asserts with his usual confidence that diversification of investments is always beneficial. His claim is that if you only have a small number of assets you can invest in, say two, then you choose the two that have the lowest correlation as that is best for diversification.

Is your brother's claim correct?

## Problem 5

Georgina Warren seeks advice on her investments from her long-standing investment advisor, Janice Young, with the aim of investing into stocks included in the FTSE100. Unknown to Janice Young, she has sought a second opinion from a different investment advisor. Comparing the datasheets she has obtained from both advisors about the stocks included in the FTSE100, Georgina Warren observes that both advisors agree to a large degree on the risks and returns of each stock. The recommended investments, however, differ substantially between both advisors. Janice Young recommends to invest 85% of Georgina Warren's wealth into the stock market and 15% into government bonds, while the other advisor suggested a mix of 60% to 40%. The portfolio of stocks also differs between both advisors substantially; Janice Young recommends to invest in a small number of stocks only, while the new advisor recommends a roughly equal investment into all stocks contained in the FTSE100.

Can you explain these differences in recommendations using portfolio selection theory?

## Problem 6

At a reception in the aftermath of a meeting of financial advisors, Thomas Hartford complains to colleagues that his clients are generally not interested in his complete advice. He points out that he always recommends a selection of stocks, or occasionally other risky assets, to invest in, in addition how much their client should put into safe assets such as government bonds. In most cases, however, his clients only take up his recommendation on the stocks and other assets, ignoring his recommendation to invest into government bonds, even though this is the part he probably puts most effort in as this is very individual advice. His colleagues say that they recognise this and always wonder why clients ignore an important part of the advice.

- a. Why is it important to consider the advice on investing into government bonds?
- b. Why is the advice on investment into government bonds individualised, but the advice on investing into other assets not?

## Topic 3

### Problem 7

Estimating the Capital Asset Pricing Model for a range of large stocks listed on the London Stock Exchange, you have chosen the FTSE 100 index as your market portfolio. A friend advises that it is better to use the FTSE 350 index or even the FTSE All-Share index as your market portfolio because they cover a wider range of stocks. You argue that as you only consider stocks included in the FTSE 100 index, this is the best match for your purposes.

- a. Is your friend's suggestion an improvement on your approach?
- b. Is either of the mentioned indices the true market portfolio?
- c. Is the true market portfolio identical for all investors?

### Problem 8

You seek to determine the expected return of assets you consider for investment, but want to establish which risk factors are relevant to them and what their influence is. You have identified a number of firm-specific factors that affect the returns of assets, but also various macro-economic and political factors you deem relevant. Using Arbitrage Pricing Theory, you have then estimated the influence of each of these factors for a variety of assets, giving you then the expected return for each asset. A friend tells you that you make your life too difficult, he always just uses the Capital Asset Pricing Model and he is sure that it makes hardly any difference, because, after all, the influence of the market portfolio simply aggregates all the other factors that you considered.

Is your friend correct in his assessment?

## Problem 9

Your financial advisor suggests you invest in 16 stocks only, which he has handpicked for their future prospects. He points out that his chosen stocks are representative of the market as a whole, covering all the major industries that are represented. Being very conscious about the risk of stock investments, you worry about the lack of diversification given that well over 1,000 stocks are listed on the London Stock Exchange alone.

Are you right to question the approach taken by your financial advisor?

## Problem 10

Consider a market in which 50 stocks are traded. You have established that the average volatility of stocks is 12% p.a. and that the average correlation between stocks is 0.7. Your aim is to hold an equally weighted portfolio that consists of as few 'average' stocks as possible, but has a total risk that is no more than 10% above the systematic risk of the market.

How many stocks do you need to hold?

## Topic 4

### Problem 11

The shares of Trafalgar plc. trade at 431p and you are seeking information whether it is advisable to invest into this company. When collecting information about the company you establish that it has paid a dividend of 13p during the last year, having grown its dividend by 4% each year in the past and you believe that the company will be able to maintain this growth for the foreseeable future. You have further determined the volatility of the shares as 22% p.a. and its correlation with a broad market index is 0.82. This market index is expected to increase by 8% p.a. and has shown a variance of 0.04 and treasury bills yield 3.5% p.a.

- a. Would you recommend to purchase shares of Trafalgar plc.?
- b. Would your answer change if the dividend were to grow at 5% each year?
- c. How do you explain that such a small difference between the growth rates affects your results significantly?

### Problem 12

Jones & Co. seek to expand their business and have drawn up three possible avenues for investment:

- Expanding their current business in the domestic market would require an investment of £100m and they expect to generate profits giving a return on investment of 11% each year for the foreseeable future. Having discussed this investment with their bank, the bank has agreed to grant a loan of £60m at a loan rate of 8% p.a.
- They could expand in an overseas market, investing £70m, which would generate an initial return on investment of 7%, but their profits are expected to grow by 4% every year. Their bank would provide a loan of £35m at a loan rate of 9% p.a.

- The final investment opportunity would be to diversify their business by expanding into new markets, which would require an investment of £110m, to which the bank would lend £65m at a loan rate of 9.5% p.a. The investment is expected to yield a return of 11.5% p.a. for the foreseeable future.

For these investments they are able to raise up to £100m in equity.

If Jones & Co. face equity costs of 12% p.a., what would be your advice on their investments?

## Problem 13

You observe that after an increase in the stock price the next price change of the stock is more likely to be positive than negative. After a decrease in the stock price, you find that the next price change is more likely to be positive than negative. You conclude that the market cannot be efficient as whatever the last observation of the price change, the price is more likely to increase than decrease.

- Is your conclusion correct, assuming you have performed appropriate statistical test supporting your observation?
- If instead, you observed that after a decrease in the stock price the next price change is more likely to be negative than positive, would your conclusion hold?

## Problem 14

You have two companies that compete in the same market, facing comparable competitive forces. Despite them being so similar, the profits of the listed company Pillmeyer AG has grown at a rate of 4% p.a., while Hertig KG, which is privately owned, has only grown at 3% p.a. With the current owners of Hertig KG seeking to sell their company, they need to determine its value to be able to set an appropriate price. As Pillmeyer AG is listed on the stock exchange, they know that its value is €117m and according to their latest annual report they generated profits of €4.5m. Internal numbers show that Hertig KG showed profits of €1.7m.

What is the value of Hertig KG?

## Topic 5

### Problem 15

You observe the following term structure on government bonds:

Maturity (years)	1	2	3	4	5	6	7	8	9	10
Yield (% p.a.)	3.24	3.31	3.57	3.82	4.13	4.41	4.93	5.02	5.52	5.97
Maturity (years)	11	12	13	14	15	16	17	18	19	20
Yield (% p.a.)	6.08	6.12	5.86	5.68	5.52	5.35	5.27	5.22	5.20	5.19

- What is the expected yield of a 3-year bond in 4 years' time?
- How do you explain the change of the yield the 3-year bond experiences, given your answer to part a.?
- In how many years' time do you expect short-term yields to decline?
- In how many years' time do you expected the yield 5-year bonds to decline?

### Problem 16

A bank has obtained deposits to the amount of \$50m from a wealthy individual and agreed to pay interest of 5.5% p.a. for a period of 2 years, while the current level of interest rates for all maturities is 5.25%. It can grant loans at the current level of interest to companies with repayments to be scheduled in 5 years. In order to completely eliminate any interest rate risk, how much loans do they need to provide to companies?

### Problem 17

As an intern at Khalili Bank in the country of Avar, you are asked to provide a brief statement for a client meeting on the likely economic conditions in the next few years.

You have only recently moved to Avar and are very much unaware of the economic situation. However, you observe that the yield curve has an inverse hump shape, i. e. it initially decreases and from year 4 onwards increases again.

What would be your conclusions?

## Problem 18

A pension fund has long-term liabilities due to commitments of future pension payments. It determines the value of these commitments by discounting at the currently prevailing interest rate for 25-year government bonds. Until pension payments have to be made, the pension fund has invested a considerable part of their reserves into Treasury Bills and comparable short-term debt instruments. They valued the instant access these investments guaranteed, without being too much affected by changing interest rates. The yields on long-term bonds have been falling recently and the pension fund made considerable losses as a consequence.

- a. Why does the pension fund suffer losses as long-term interest rates fall?
- b. How can the pension fund reduce the risk of losses from future decreases in the long-term interest rate?

## Topic 6

### Problem 19

Steaucescu SRL has purchased new machinery to upgrade and expand their current production facilities. The machinery was purchased from a manufacturer in France for a price of €12m. The main currency at which Steaucescu SRL invoices their customers is the Romanian Leu and due to recent considerable volatility of their currency, they seek to hedge their payment to their French supplier, which is due in 4 months. The current exchange rate is 5 Leu/€ and the interest rates in Romania are 7.2% p.a., while in France they are 4.8% p.a.

- a. What is the forward rate that Steaucescu SRL would obtain?
- b. Explain why the forward rate differs from the spot rate.

### Problem 20

RiskConsult LLP is a hedge fund that invests extensively in small listed companies that are mostly neglected by investors; their current portfolio encompasses holdings in approximately 150 of such companies. They have achieved annual returns of 11% with a volatility of 18%, while the market showed an annual volatility of 27% and generated only 7%, although some investors were not satisfied with their investment strategy as it showed a correlation of 0.8 with the market, limiting their diversification benefits from investing into RiskConsult LLP. With some of their investments being financed through a loan, which is due to be repaid in three months time, RiskConsult LLP seeks to lock in any gains they have made to avoid having to sell holdings at a loss in the future. Due to agreements with their investors, they are not able to sell these stocks and retain the proceeds in cash as they normally would do. They have set aside a representative part of their portfolio, valued at \$15m, that they seek to sell for the repayment of the loan.

- a. Which instrument is most suitable to hedge the exposure of RiskConsult LLP?
- b. If only derivatives on the market are available, how many contracts would you need to obtain for your hedging strategy in part a.?

## Problem 21

Seven years ago, a company has agreed a £25m loan with a bank at a variable loan rate that is adjusted every 3 months to the SOFR + 0.25%. As the company has mainly fixed obligations, but at the time could not find a bank offering competitive loan rates on 10-year bonds, they entered a swap agreement with their bank, which had an initial time to maturity of 10 years, matching the terms of their loan. The swap rate at the time of the agreement was 7.5% p.a. and the current term structure for government bonds is

Maturity (years)	SOFR	1	2	3	4	5	6	7	8	9	10
Yield (% p.a.)	2.96	3.24	3.31	3.57	3.82	4.13	4.41	4.93	5.02	5.52	5.97

The company is generally regarded as safe by investors due to their market position and safety of business and attracts a risk-premium of 0.25% p.a..

If the interest rate on their loan has just been reset, what is the current value of their swap?

## Problem 22

As part of their investment strategy, Alliance Insurance plc has developed a small division that purchases swaps and forwards from selected banks who have agreed such contracts with their clients, but may want to divest for reasons of risk management. A junior trader is observing the negotiation between an experienced trader and her counterparty at the bank. They are discussing the terms of a USD-GBP currency swap for a nominal \$100m, which the bank has agreed for one of their leading customers. This currency swap has a remaining time to maturity of 8 years. The junior trader is astounded to hear that the insurance company has eventually bought the swap and received a payment of \$4m for purchasing this swap; he has never seen a situation where a security is bought and the seller pays the purchaser.

How do you explain this agreement?

## Topic 7

### Problem 23

An investor has obtained information on a company, but is unsure about the impact this will have on the stock price, once it becomes publicly known. The company is seeking to expand overseas to counter increased competition in their domestic markets. This could be seen as a positive move by the company to secure future profitability and the stock price should increase. On the other hand, it can be seen as a sign that profitability in their domestic market, which makes up the majority of their current profits, is under more strain than the market has anticipated and this would reduce the stock price. Having gone through both scenarios, he believes that the stock price will either increase by about 10% if the information is seen positively, or the stock price will decrease by 20% if the information is interpreted negatively.

Develop an investment strategy using options that allows the investor to take advantage of his information.

### Problem 24

You seek to invest further into Vamelia plc as your analysis suggests that this company will outperform many competitors in the near future. However, you have already hold 24.85% of the outstanding share as a long-term investment and financial regulations require you to make a takeover offer for all outstanding shares if your shareholding reaches 25%. You are not interested in acquiring Vamelia plc completely, and would also not have the financial resources to do so.

- a. How can you benefit from the prospects of Vamelia plc without purchasing their shares?
- b. If no derivatives on Vamelia plc are available in the market, could you use derivatives on a broader stock index to achieve a similar, although not identical outcome?

## **Problem 25**

Can option values be negative, like those of futures and swaps?

## **Problem 26**

If two portfolios have the same value at some point in the future, why will the prices of those two portfolios always be identical, even before this point in time?

## Topic 8

### Problem 27

In each time period, a stock, currently trading at £50, increases or decreases by 10% with equal probability. If you buy a European call option with a strike price of £55 maturing in 2 time periods, how much do you expect to pay if the risk-free rate is 5% per time period and the return on the stock is expected to be zero?

### Problem 28

A Digital Option is an option that pays a fixed amount if it is exercised and is otherwise similar to a standard option. A Digital Call option pays the agreed amount if at maturity the price of the underlying asset is above the strike price and a Digital Put option pays the agreed amount if at maturity the price of the underlying asset is below the strike price.

Consider a stock, currently trading at £50, which increases by 10% or decreases by 20% with equal probability. If you buy a Digital put option with a strike price of £45 maturing in 2 time periods which pays you £10, how much do you expect to pay if the risk-free rate is 5% per time period?

### Problem 29

A Barrier Option is an option that pays the normal option payoff, but only if during the life time of the option certain price limits (barriers) either have been breached or have not been breached. An 'Up-and-in' Call option allows the buyer to obtain the usual payments of a call option, provided during the life of the option, the stock price has exceeded the barrier price.

Consider a stock, currently trading at £50, which increases by 10% or decreases by 20% with equal probability. If you buy an 'Up-and-in' Call option with a strike price

of £40 and a barrier at £53 maturing in 2 time periods, how much do you expect to pay if the risk-free rate is 5% per time period?

## Problem 30

A stock, currently trading at £50 and has a volatility of 25%. You buy a European call option with a strike price of £55 maturing in 2 months, the risk-free rate is 5% p.a. and the return on the stock is expected to be 12% p.a.

- a. Using the Black-Scholes formula, how much do you expect to pay for this Call option?
- b. How much would be value of a Put option with the same characteristics?

## Topic 9

### Problem 31

You are holding 2000 stocks whose characteristics have been discussed in problem 30.

- a. If you wanted to ensure to hedge the value of your position perfectly during the coming 2 months at a price of £55 using put options, how many put option would you have to purchase?
- b. Once you have purchased these put options, what further actions do you have to take in order to ensure your perfect hedge?

### Problem 32

You believe to have spotted the mispricing of a call option on a leading company. The company has released new information, that has lead to widespread confusion in the market about its future prospects and has reduced the price of its stocks by just over 5% during the day. At the same time, a call option has increased in value. You now believe the call option to be overpriced as its value should have gone down with the stock price.

Is it correct that you have identified the mispricing of this call option?

### Problem 33

Constantin Theopoleus is the CEO of CT Engineering E.P.E. As part of its investment programme to update their ageing machinery, the board considers the investment options and how these investments can be financed. Constantin Theopoleus intervenes at that point and states that obviously they will take a loan to finance the investment

as they should be able to secure a loan at 8-9% p.a., while using equity currently costs 12-15% p.a., depending on how it is calculated. Therefore, loans are cheaper and it would increase the value of the firm to use loans when financing these investments. Is this assertion correct?

## Problem 34

James Copeland is perplexed by the reaction of markets to an announcement his company has made. As the Chief Financial Officer he has made a disclosure that the company, Engineering Solutions plc, will expand its reach by opening another five offices across the country and finance the acquisition of suitable office space and the recruitment of staff by drawing on a £50m loan facility their bank has provided. Engineering Solutions plc provides engineering consultancy mainly for infrastructure projects and their main clients include Network Rail, National Highways, and major utility companies working on the establishment of wind farms as well as nuclear power plants, making their income stream highly predictable. While such a move to expand its geographical coverage was expected by the market, their share price did not react. In contrast to that, on the same day, another company, AIChip plc, made a long-anticipated announcement of expanding its business by investing into the production of high-end computer chips for use in applications involving artificial intelligence; their market is characterised by a large degree of uncertainty about future developments. Similar to Engineering Solutions plc, they announced that the expansion of their business would be financed through a loan facility provided by their bank. In this case the stock price increased by 8% after the announcement.

How can you explain the differences in the stock market reaction?

## Problem 35

Vijay Foods plc owns a chain of supermarkets and Vijay Singh is its main shareholder and Chief Executive Officer. Recently Vijay Foods announced that as an alternative to modernising its existing supermarkets, it could expand its business by introducing budget supermarkets in the region of Marab, where Vijay Singh is a prominent local politician with ambitions to break into national politics. With their existing supermarkets, Vijay Foods plc target mainly middle class families and the business is performing well. The budget segment is highly contested by a large number of well established operators and financial analysts have been sceptical whether Vijay Foods plc can make

a successful entry into this market. Undeterred, Vihjay Singh has approached his bank for a loan to finance both the modernisation of its existing supermarkets and the introduction of the new chain of budget supermarkets. His bank has declined to provide the loan and he has decided to use his considerable personal wealth to provide a private loan to the company. While the stock market had not reacted significantly when the expansion plans were announced, the stock price dropped instantly by 6% as the private loan was disclosed.

Why did the stock price drop after this announcement?

## **Problem 36**

Hiromara Co. is a local producer of energy drinks, but suffers from expanding international competitors taking an increasing market share. Previous launches of new products have been either a failure or lead to moderate success. They have now developed and already announced a new drink they seek to bring to the market and plan a large marketing campaign for which they need to raise ¥10bn. In many previous cases the main shareholder has agreed to finance such investments by the company issuing new shares, but he has made it clear that his financial resources are limited and he would not be able to provide funding at the scale sought. Approaching their bank, Hiromara Co. is able to secure a loan for the required amount. Taking the willingness of the bank to provide the loan, which was only forthcoming after close scrutiny of its plans, as an endorsement of their plans, the agreement is announced publicly. Expecting a positive response from the stock market, especially as a loan has been raised, Hiromara Co. is disappointed that the stock price remains virtually unchanged.

How do you explain the lack of stock market response to the announcement of the funding of the marketing campaign through a bank loan?



## Topic 10

### Problem 37

Fritelli SpA and Mariagno SpA are two stationary companies focussing on high-end writing utensils, such as fountain pens, and accessories. They are both targeting the same market and are fierce competitors, where neither of these two companies seems to have a meaningful advantage over the other. The companies are located within 10 minutes walk of each other in the small town of Limosine and are the result of two brothers falling out over the running of their company, resulting in the company being split. Fritelli SpA is owned to 74% by Giorgio Mariagno, who also manages the company, while Mariagno SpA is owned to 78% by Antonio Mariagno, but due to health concerns has delegated the running of the company to an outside manager and is not involved in any but the most important decisions by the company. By coincidence, both companies announce within days that they will seek to raise equity from outside investors to strengthen their balance sheets and fund further expansion of their respective business lines; the amounts sought would in both cases reduce the holdings of the current owners to below 50%. The reaction of the stock market to this announcement is very different; in the case of Fritelli SpA the stock price drops by 7 while there is no reaction in the stock price of Mariagno SpA.

How can you explain the difference in the reaction of the stock market to the announcement of raising equity?

### Problem 38

Alcatraz SA produces pipes and pumping stations for water and sewage companies. With many competitors in the field and utility companies employing strict tender rules for any large projects, it has become difficult for companies in this sector to remain profitable, Alcatraz SA being no exemption. Future business plans are often kept secret in this sector as to not give away information to competitors unnecessarily, however, Alcatraz SA has taken the unusual step to use an analyst conference and quite openly discuss their plans for the future development of the company. Financial analysts left the conference impressed by the openness of the company and were grateful for the insights not only into Alcatraz SA itself, but also the industry as a whole. A few weeks after this conference, Alcatraz SA announces that in order to increase their investments into the future development of the company, it will cut its dividend by

50% for the foreseeable future. This announcement took the market, as well as the financial analysts attending the conference, by surprise. However, the stock market did not react much to this announcement with the stock closing down 0.7% compared to the market overall closing down 0.6%.

How can you explain that there was no impact on the stock price after the dividend cut was announced?

## Problem 39

Röthlisberger AG has lost significant market share in recent years and performed poorly overall, resulting in the dismissal of the senior management. The new management team is seen as highly competent and convinced that the company can be turned around quickly. Having taking up their new roles, the new management team is facing an immediate need to make investments for which additional funds are required. At the board meeting, it is discussed whether the dividend should be reduced, at least temporarily, to preserve cash and reduce the amount that needs to be borrowed for the necessary investments.

Do you think a decision to cut dividends is appropriate?

## Problem 40

OfficeSolutions plc is a real estate company that owns large office spaces in many large cities to rent out as temporary locations for companies whose office undergo renovations or who have a sudden demand for additional office space. Their business has been performing very well recently and due to the lack of available office space to purchase, they have accumulated significant cash reserves. They have now approached RetailSpace plc with the aim of acquiring this company, who operate a similar business as OfficeSolutions plc, but focus on providing retail spaces. With the growth of online shopping, demand for retail space has been low and they have not performed well recently. Its acquisition by OfficeSolutions plc would however fulfill a long-term vision by the founder and CEO of OfficeSolutions plc to provide spaces for all commercial activities in town centres. In discussion with Lambrecht & Co, the investment bank advising them, they have been discussing how to pay for the acquisition. Lambrecht & Co have advised that the acquisition will not be well received by the market, but as OfficeSolutions plc seems insistent on completing the acquisition, they strongly

recommend to make a cash offer rather than a stock offer. They advise that using their cash reserves to pay for the acquisitions would be seen as neutral by the market, while issuing shares in OfficeSolutions plc to the owners of RetailSpace plc would be seen as negative and will lead to a fall in the stock price.

What is the rationale for the advice given by Lambrecht & Co?







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